

2. Consideration of New Revenue Sources

Finance Administration 215 N. Mason 2nd Floor PO Box 580 Fort Collins, CO 80522

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AGENDA

Council Finance & Audit Committee January 6, 2022 4:00- 6:00 pm

Zoom Meeting https://zoom.us/j/8140111859

90 mins.

Approval of Minutes from the December 1,2021 Council Finance Committee meeting.

1. Financial Policy Updates 30 mins. B. Dunn

G. Sawyer

J. Poznanovic

Other Business

Council Finance Committee

Agenda Planning Calendar 2022 RVSD 12/15/21 ts

Jan. 6th	2022		
	Financial Policy Updates	30 min	B. Dunn
	Consideration of Sustainable Funding Sources	90 min	J. Poznanovic G. Sawyer

Feb. 4 th	2022		
	Broadband Business Plan Update	60 min	C. Crager
	2023 Development Review and Capital Expansion Fee Updates	25 min	D. Lenz
	EPIC Home Loan Program	30 min	J. Phelan C. Conant

Mar. 3 rd	2022		
	Sustainable Funding Update	TBD	J. Poznanovic
	Debt Offering: Hughes Land, Natural Areas, Golf	30 min	B. Dunn
	2023-2024 Budget Process Review	30 min	L. Pollack
	2022 Reappropriation	20 min	L. Pollack

Note: 2022 Council Finance Committee meeting schedule changed to

1st Thursday of the month from 4-6 pm.

Exception being the February meeting which will be on Friday, February 4th from 3-5 pm to accommodate members schedules.



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Finance Committee Meeting Minutes
December 1, 2021
3:00 - 5:00 pm
Zoom

Council Attendees: Julie Pignataro, Kelly Ohlson, Emily Francis, Tricia Canonico

Staff: Kelly DiMartino, Kyle Stannert, Travis Storin, John Duval,

Theresa Connor, Lance Smith, Eileen Dornfest, Jen Authier, Adam Bromley,

Matt Fater, Jennifer Poznanovic, Ginny Sawyer, Molly Reeves,

Caryn Champine, Dean Klingner, Mark Kempton, Drew Brooks, Seve Ghose,

Mike Calhoon, Jim McDonald, Aaron Harris, Jackie Thiel, Lindsay Ex, Honore Depew, Meaghan Overton, Sue Beck-Ferkiss, Adam Molzer,

Javier Echeverria, Beth Yonce, Clay Frickey, Lawrence Pollack, Blaine Dunn, Amanda Newton, Renee Callas, Dave Lenz, Jo Cech, Erik Martin, Zack Mozer, Janice Saeger, Gerry Paul, Nina Bodenhamer, SeonAh Kendall, Carolyn Koontz

Others: Kevin Jones, Chamber

Emily Gallichotte, Ted Shepard, Rob Cagan

Meeting called to order at 3:00 pm

Approval of minutes from the November 3, 2021, Council Finance Committee Meeting. Kelly Ohlson moved for approval of the minutes as presented. Emily Francis seconded the motion. Minutes were approved unanimously via roll call by; Julie Pignataro, Kelly Ohlson and Emily Francis.

A. Utilities 2021 Capital Improvement Plans & Strategic Financial Plan Updates for Water and Wastewater Utilities

Lance Smith, Utilities Strategic Financial Director

EXECUTIVE SUMMARY

The purpose of this agenda item is to provide the Council Finance Committee with an overview of the planning processes underway within Fort Collins Utilities. This agenda item will focus on the Water and Wastewater Enterprise Funds. The Light & Power and Stormwater Enterprise Funds were presented for discussion in November. The 2021 Capital Improvement Plans (CIPs) and the 2021 Strategic Financial Plans for each utility are outlined. The resulting investment projections set the basis for beginning the 2023-24 Budgeting For Outcomes (BFO) cycle. The overall 10-year rate projections for both utilities are also presented here along with the forecasted debt issuance needs.

Recognizing that these utilities share customers, a more comprehensive view is also taken here of how the combined plans will impact what our community pays for utility services over the coming decade and the levels of service to be expected for such. The capital improvement plans are intended to maintain the current levels of service for each utility through sustainable asset renewal plans and targeted new infrastructure. This can be achieved through the modest rate increases being planned and timely debt issuances shown here.

For the 2023-24 Budgeting For Outcomes process the table below summarizes the impact of the proposed rate increases for the average residential customer.

	2021	2022		20	23	2024		
Residential Utility Cost	Baseline	% Change	Bill	% Change	Bill	% Change	Bill	
Electric	\$78.14	2.0%	\$79.70	3.0%	\$82.09	4.1%	\$85.46	
Water	\$49.03	0.0%	\$49.03	2.0%	\$50.01	2.0%	\$51.01	
Wastewater	\$34.25	0.0%	\$34.25	2.0%	\$34.94	2.0%	\$35.63	
Stormwater	\$16.78	0.0%	\$16.78	2.0%	\$17.12	2.0%	\$17.46	
Total	\$178.20	0.9%	\$179.76	2.4%	\$184.16	2.9%	\$189.56	

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-42 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements.

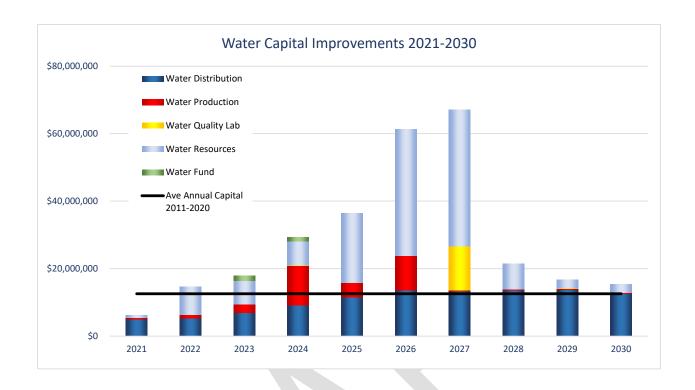
BACKGROUND/DISCUSSION

This is a continuation of the discussion began last month with the presentation of the Electric and Stormwater utility financial plans and associated rate and debt forecasts. With this presentation of the Water and Wastewater utility financial picture, any feedback will be utilized in developing the initial 2023-24 budget offers. After discussing each of these two utility services, the comprehensive picture is presented and the forecasted impacts on customer utility costs can be seen. The feasibility of the financial paths presented is then discussed.

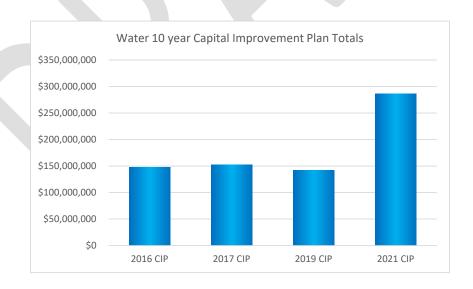
The confidence in the long-term financial modeling that is the basis of these forecasts depends on the assumptions used in the modeling. Some of those assumptions are macro-economic assumptions around long term inflation, how inflation affects the cost of debt service through the associated interest rates and how well the economy is doing in general. The recent pandemic has stressed the economy over the past two years, yet it has also highlighted the necessity for utility services as is reflected in the relatively stable revenues for such. Other assumptions are more micro-economic and, as such, depend on internal efforts to effectively manage operating costs along with capital and resource planning. The financial resiliency of each of these utility enterprise funds relies on active management and strong leadership over the coming decade.

Water Enterprise Fund

The 10-year Capital Improvement Plan (CIP) for the Water Fund consists of projects needed to provide an adequate water supply such as Halligan Reservoir, a modern water quality laboratory, some improvements needed at the water treatment plant and asset renewal both at the plant and the water distribution infrastructure. It is anticipated in the CIP that it will take a few years to reach the targeted asset renewal rate of 1.0% per year.



The 2021 CIP for Water has \$286M through 9 years and an additional \$72M beyond 2030. This is a significant increase in identified capital work over the 2019 CIP which had been stable to previous efforts. The 2021 CIP includes the additional funding needed for the Halligan Reservoir



Water Operations

Operating revenues have grown modestly over the past decade through rate increases while total water sales have remained almost flat. Based on the projected revenue requirements for O&M and capital investment

revenues are projected to grow at a rate slightly higher than the past decade at 3.9% compared to 3.6% since 2011.



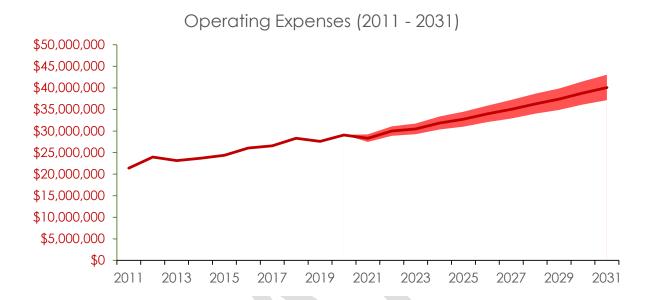
The colored area represents the 80% confidence band around the expected operating expense.

Strong revenue growth in residential sales have increased operating revenues and thereby operating income over the past decade. This revenue growth is being driven mainly by rate increases as increased customer growth has been mostly offset by increased efficiency. The operating revenue growth is slightly below the annual rate increases suggesting that it is not realistic to expect to fully realize the revenue growth of a proposed rate increase.

FUND: 502 - Water Enterprise Fund

	Budget				
Year	2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Customers	36,541	0.88%	0.71%	0.68%	0.65%
Annual Rate Adjustment	2.00%	2.70%	2.00%	1.67%	0.00%
Residential Water Sales	\$ 16,601,500	2.49%	3.28%	2.87%	7.15%
Com/Indl Water Sales	\$ 9,833,000	3.46%	3.05%	1.49%	1.35%
District Water Sales	\$ 1,890,100	8.19%	11.44%	8.52%	-7.59%
Other Water Sales	\$ 905,400	4.35%	2.56%	-5.94%	10.99%
PILOTs	\$ 1,701,000	2.84%	2.91%	2.19%	4.01%
Operating Revenue	\$ 30,931,000	3.13%	3.55%	2.35%	4.19%
Development Fees/PIFs/Contributions	\$ 1,780,000	-1.33%	-24.52%	-48.22%	-27.53%
Other Misc	\$ 255,000	5.03%	6.05%	-38.02%	5.99%
Internal Transfers In	\$ 250,000	7.11%	-14.30%	#DIV/0!	-45.78%
Non-Operating Revenue	\$ 2,902,155	-0.67%	-16.30%	-38.57%	-26.51%

Water O&M expenses have increased at an inflationary rate over the past decade. This has been achieved through active management. The rate and debt issuance forecasts in the plan assume that O&M will increase at a rate close to the rate of inflation of 3.5% annually through 2031.



The colored area represents the 80% confidence band around the expected operating expense.

The table below shows the recent trends in expenses along with the relative size of each line through the 2021 budgeted expenses. Positive trends in engineering, metering and treatment are being offset by higher than inflationary increases in transmission and distribution as well as administrative expenses within the Utilities Service Area.

502 - Water Enterprise Fund

		Budget				
			10 Yr	5 Yr	3 Yr	1 Yr
Year		2021	Annualized	Annualized	Annualized	Annualized
			Trend	Trend	Trend	Trend
Treated water delivered- acre feet		26,869		1.0%	-0.6%	4.5%
Water Treatment	\$	10,524,490	1.7%	1.6%	-0.6%	-0.3%
Transmission & Distribution	\$	3,063,802	3.0%	3.0%	6.0%	6.0%
Water Meters O&M	\$ \$ \$	777,527	2.6%	0.8%	11.8%	2.9%
Engineering	\$	955,161	17.2%	30.7%	-3.2%	-7.4%
Water Resources	\$	3,623,845	6.6%	2.7%	-1.2%	0.7%
Water Conservation	\$	1,117,086	12.8%	4.8%	4.8%	-4.4%
Water Quality Lab	\$	1,103,031	2.4%	1.2%	2.5%	6.3%
PILOTs	\$	1,701,000	2.8%	2.9%	2.2%	4.0%
Admin Services - CS&A	\$	4,260,134	1.0%	7.5%	13.4%	15.9%
Admin Services - General Fund	\$	871,248	0.2%	-0.1%	5.0%	2.5%
Other Payments & Transfers	\$	1,336,228	-5.7%	-7.0%	-22.5%	-210.3%
Depreciation	\$	7,500,000	4.4%	4.4%	2.8%	2.1%
Total Operating Expenses	\$	36,833,553	3.1%	3.6%	3.1%	5.5%
Debt Service	\$	188,224	-25.8%	-43.8%	-60.2%	-48.8%
Internal Transfers Out	\$	415,206	#DIV/0!	13.3%	-7.5%	-0.4%
Minor Capital	\$	2,341,433	5.4%	-13.2%	-17.3%	-6.3%
Major Capital	\$	7,922,083	5.3%	-4.9%	-7.0%	34.2%
Total Non-operating Expenses	\$	10,866,946	0.8%	-9.2%	-13.7%	24.7%
Total Expenses	\$	47,700,500	2.4%	-0.8%	-2.6%	9.9%

By limiting O&M to a more modest rate of growth it is expected that the Water Fund will generate sufficient operating income consistently to fund asset renewal investments at the targeted levels. This will limit the amount of debt issuance that is necessary over the coming decade.



Water Rate and Debt Forecasts

Rate increases are not anticipated to be significantly over inflationary pressures in the coming decade although any significant change in the necessary capital investments may require modest adjustments to ensure adequate operating revenue is generated to support the system renewal investments. Some debt is anticipated to be needed for capital investments over the next decade.

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)				\$86.0			\$86.0			

The overall debt capacity of the fund is determined by the net pledged revenues and targeted debt coverage ratio. The table below shows the debt capacity at various coverage ratios as well as the current outstanding debt.

Debt Capacity Estimation

Interest Rate:

2.50%

Net Pledged Revenue (5yr ave):

\$17,729,600

Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$155	\$219	\$277
1.2	\$129	\$183	\$231
1.4	\$111	\$157	\$198
1.6	\$97	\$137	\$173
1.8	\$86	\$122	\$154
2.0	\$78	\$110	\$138
2.2	\$71	\$100	\$126
2.4	\$65	\$91	\$115
2.6	\$60	\$84	\$106
2.8	\$55	\$78	\$99
3.0	\$52	\$73	\$92

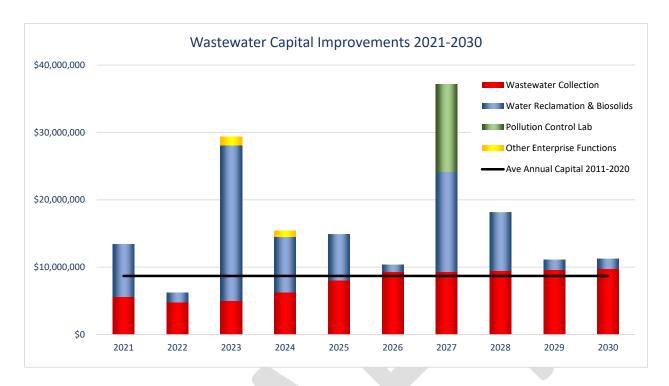
Outstanding Debt in 2021:

\$0.0 M

Wastewater Enterprise Fund

Wastewater CIP

The Capital Improvement Plan for the Wastewater Fund includes improvements necessary at both water reclamation facilities, a modern pollution control laboratory and a ramping up of investment in asset renewal programs for the collection system. Prioritization of the capital projects will need to be considered before the 2023-24 budget process to ensure investments are made where needed the most.



The amount of anticipated capital investment is greater than what has been made over the previous decade, consistent with what has been seen in the other utilities in 2021. This will require significant operational planning and project management to ensure that the bond revenue is utilized efficiently.



Wastewater Operations

Operating revenues have grown very modestly over the past decade at 2.4% annually through some larger rate adjustments through 2012 followed by more modest and less frequent rate adjustments after 2012. Modest rate adjustments will be necessary to increase revenues in this fund as wastewater services are not metered but rather depend on the amount of water being consumed by a customer. Conservation efforts on water usage can negatively impact revenues for the wastewater utility.



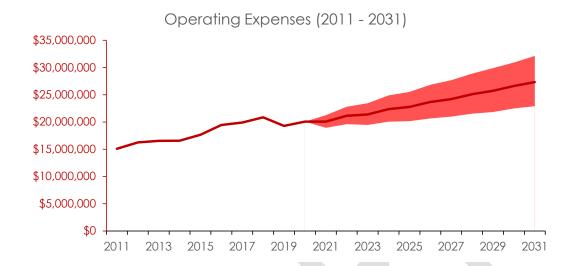
The colored area represents the 80% confidence band around the expected operating expense.

Almost no revenue growth in residential services over the past decade combined with reduced commercial wastewater demands has put rate pressure on the wastewater utility. The operating revenue growth is expected to increase only slightly in the coming decade through modest rate adjustments.

503 -	Wastewater	Enterprise	Func

		Budget				
Year		2021	10 Yr Annualized Trend	5 Yr Annualized Trend	3 Yr Annualized Trend	1 Yr Annualized Trend
Average flow wastewater treated- million	1	15	#DIV/0!	-1.37%	-1.16%	0.00%
	7					
Annual Rate Adjustment		0.00%	3.20%	1.80%	1.00%	0.00%
Residential WW Sales	\$	15,750,000	3.29%	1.60%	0.58%	-0.26%
Com/Indl WW Sales	\$	6,200,000	-0.67%	0.24%	-4.16%	-7.17%
District WW Sales	\$	400,000	1.00%	2.00%	1.34%	0.61%
Other WW Sales	\$	200,000	2.37%	-1.86%	-0.08%	25.39%
PILOTs	\$	1,350,000	2.04%	1.28%	-0.76%	-2.03%
Operating Revenue	\$	23,900,000	2.05%	1.21%	-0.72%	-1.90%
Development Fees/PIFs/Contributions	\$	750,000	-5.13%	-11.98%	-28.03%	167.56%
Other Misc	\$	115,000	11.73%	25.56%	49.24%	497.86%
Interest Revenue	\$	369,638	-0.93%	2.26%	-2.62%	-36.78%
	-					
Non-Operating Revenue	\$	1,234,638	-2.41%	-6.20%	-18.35%	68.12%

Wastewater O&M has increased modestly over the past decade and is expected to continue to grow modestly at around the historical inflationary level of 3.2%.



The colored area represents the 80% confidence band around the expected operating expense.

The table below shows the recent trends in expenses along with the relative size of each line through the 2021 budgeted expenses. Positive trends in engineering and treatment are being offset by higher than inflationary increases in trunk and collection as well as administrative expenses within the Utilities Service Area.

503 - Wastewater Enterprise Fund

	Budget				
		10 Yr	5 Yr	3 Yr	1 Yr
Year	2021	Annualized	Annualized	Annualized	Annualized
		Trend	Trend	Trend	Trend
Water Reclamation & Biosolids	\$ 5,768,036	2.1%	2.1%	0.1%	-2.4%
Trunk & Collection	\$ 1,643,171	1.6%	3.7%	1.7%	12.8%
Engineering	\$ 846,422	16.3%	27.5%	-2.5%	-11.6%
Pollution Control Lab	\$ 1,255,183	0.7%	1.3%	0.4%	3.6%
PILOTs	\$ 1,350,000	2.0%	1.3%	-0.8%	-2.0%
Administrative Services					
Admin Services - CS&A	\$ 2,541,579	1.4%	3.1%	-1.2%	19.1%
Admin Services - General Fund	\$ 636,389	-0.4%	2.5%	-3.4%	2.5%
Other Payments & Transfers	\$ 1,236,037	-9.2%	-6.5%	-9.4%	254.8%
Depreciation	\$ 6,500,000	6.7%	3.0%	2.2%	1.2%
Total Operating Expenses	\$ 21,776,817	2.7%	2.6%	0.3%	4.1%
			_		
Debt Service	\$ 2,213,700	-10.8%	-2.2%	0.2%	0.9%
Minor Capital	\$ 1,346,819	5.0%	-9.9%	-15.9%	-40.8%
Major Capital	\$ 13,827,736	-1.5%	-3.1%	1.3%	82.8%
Total Non-operating Expenses	\$ 17,388,255	-3.9%	-3.2%	0.3%	50.2%
Total Expenses	\$ 39,165,072	-0.7%	-0.1%	0.3%	19.3%

By limiting O&M to a more modest rate of growth in all departments it is expected that the Wastewater Fund will generate sufficient operating income consistently to fund asset renewal investments at the targeted levels. This will limit the amount of debt issuance that is necessary over the coming decade.



The consistent difference between the operating revenue and operating expense allows for asset renewal to be funded with less debt issuances than would be necessary without such operating income. Modest rate adjustments will allow for pledged revenues to be sufficient for any anticipated debt issuances over the next few decades.

Wastewater Rate and Debt Forecasts

As the table below shows, there will be the need to issue debt for several capital investments over the next decade. The first such issuance should be done in 2023 as part of the 2023-24 BFO cycle. Modest rate adjustments can be made to increase the net pledged revenues available for debt service as the debt is issued or more modestly over two or three years ahead of the next issuance.

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase	0.0%	2.0%	2.0%	1-3%	1-3%	1-3%	2-3%	2-3%	2-4%	2-4%
Debt Issued (\$M)		\$33.0				\$60.0			\$21.0	

The overall debt capacity of the fund is determined by the net pledged revenues and targeted debt coverage ratio. The table below shows the debt capacity at various coverage ratios as well as the current outstanding debt.

Debt Capacity Estimation

Interest Rate: 2.50%

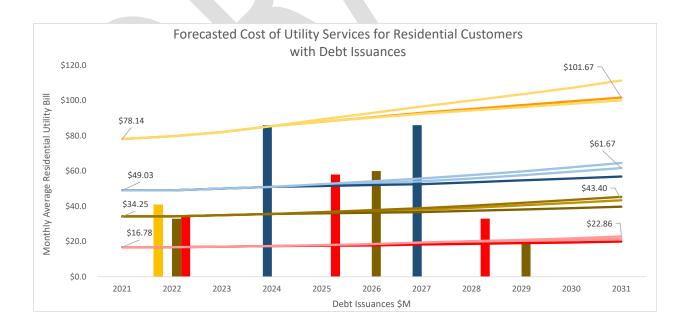
Net Pledged Revenue (5yr ave): \$13,086,600

Debt Coverage Ratio	Debt Capacity (10 yr Debt)	Debt Capacity (15 yr Debt)	Debt Capacity (20 yr Debt)
1.0	\$115	\$162	\$204
1.2	\$95	\$135	\$170
1.4	\$82	\$116	\$146
1.6	\$72	\$101	\$128
1.8	\$64	\$90	\$113
2.0	\$57	\$81	\$102
2.2	\$52	\$74	\$93
2.4	\$48	\$68	\$85
2.6	\$44	\$62	\$79
2.8	\$41	\$58	\$73
3.0	\$38	\$54	\$68

Outstanding Debt in 2021: \$16.2 M

Conclusions and Next Steps

Over the past two meetings ten-year rate and debt forecasts have been discussed which indicate that the significant capital investments expected over the coming decade can be achieved for each utility independently. However, it is also necessary to look more holistically at the impacts on these plans on our community. By limiting rate increases annually to no more than 5.0% per utility in a given year, the overall cost of utility services for customers of receiving some or all of these services through the municipal utility will increase less than 5% annually, consistent with long term inflation.



To do so, the financial state of each utility is expected to change substantially from one of almost no outstanding debt today to one with significant outstanding debt with healthy operating margins to adequately meet debt service obligations while maintaining the good credit ratings on such debt. This increased level of debt is manageable through expected revenue growth and cost containment resulting in significantly more capital investment being completed over the next decade than the previous decade. This increased capital investment will ensure that our community will continue to benefit from municipal utility services in the future.

Enterprise	Rate Incre	ase (%/yr)	Operating Revenue (%/yr)		Operating Expenses (%/yr)			Operating Income (\$M/yr)		
Fund	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031	Historical 2011-2020	Forecast 2022-2031		Historical 2011-2020	Forecast 2022-2031	
L&P *	4.1%	3 - 5%	3.8%	3.8%	3.4%	2.9%		(\$2)	\$7	
Water	2.7%	3 - 5%	3.6%	3.9%	3.5%	3.5%		\$4	\$6	
Wastewater	3.2%	2 - 4%	2.4%	2.3%	3.2%	3.1%		\$4	\$5	
Stormwater	0.9%	3 - 5%	2.8%	2.8%	4.3%	4.2%		\$7	\$8	

^{*} Series 2018A and 2018B outstanding for Connexion

Enterprise	Outstar	nding Debt	Principal	Debt Issued Available Rese		erves		Capital nt (\$M/yr)	
Fund	2011	2021	2031	2021 - 2031	2011	2021	2031	Historical 2011-2020	Forecast 2022-2031
L&P *	\$16M	\$0	\$25-30M	\$40-50M	\$16M	\$23M	\$66M	\$160M	\$270M
Water	\$26M	\$1M	\$140-175M	\$170-200M	\$9M	\$41M	\$71M	\$130M	\$440M
Wastewater	\$42M	\$16M	\$90-100M	\$110-120M	\$1M	\$19M	\$24M	\$90M	\$200M
Stormwater	\$34M	\$2M	\$100-110M	\$120-140M	\$2M	\$12M	\$13M	\$70M	\$240M

^{*} Series 2018A and 2018B outstanding for Connexion

The next steps down this path are focused on the 2023-24 Budget process. Offers will be developed and submitted consistent with the CIPs considered here after going through a prioritization process to ensure those projects that most impact the targeted levels of service are submitted for consideration. Some of those Offers will identify "Bond Proceeds" as the funding source which may require additional due diligence outside of the budget process. Submitting such capital projects through the 2023-24 budget process will allow for them to be considered in the larger context of all budget offers. Other, smaller capital projects to be considered for funding through anticipated revenues and available reserves will also be submitted with the anticipated revenues reflecting the proposed rate adjustments discussed here. Like the City Strategic Plan effort that begins each budget cycle, this financial strategic plan and the underlying CIPs are reviewed every two years to ensure alignment and reflect new considerations, strategic objectives, and cost estimates.

DISCUSSION / NEXT STEPS:

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does the Council Finance Committee support the Utilities Strategic Financial Plan assumptions ahead of the 2023-42 BFO cycle? In particular, the projected rate increases necessary to meet anticipated revenue requirements.

Kelly Ohlson; we did this 10 years ago and now we are doing it – how did we do in the last 10 years? Lessons learned could inform the next 10 year's plan. Have we analyzed how we did?

Lance Smith: I have been looking at how our previous forecasts have held up – we have done well in estimating the total amount of capital work we were going to get done – identifying new needs – That is something that would be part of the write up I was talking about. How things have done historically.

Kelly Ohlson; you have done a good job in bringing forward a lot of good information – well done. It appears that we are getting ready to do a lot more capital projects over the next 10 years than we did the last 10 years – Is that accurate? Even with taking Halligan out which I am not suggesting.

Lance Smith; that is definitely accurate - we are looking to try to get our asset renewal at a more sustainable rate and we are currently replacing our linear infrastructure at a 200–250-year replacement cycle and we recognize that is not sustainable so we are hoping to step that up over the next few years to a 1% per year replacement which would be a 100-year replacement cycle.

Kelly Ohlson; the way I read it was to inform the future

Lance Smith; asset management has been something that we have been trying to stand up and bring along over the last decade and it has become more and more apparent to us that we need to make this investment

Kelly Ohlson; it jumped out at me as it was mentioned twice – one of the contributors was administrative expenses within the utilities service area – it seems like the projects are big and the ongoing stuff – wastewater and water takes a lot of money in and money out- How big can administrative expenses be that it is called out as a contributing factor twice?

Lance Smith; for example, in the wastewater fund operating expenses are about \$22M and administrative expenses are just over \$4M so about 20% - what I was calling out there is that the 20% has grown at a rate faster than the direct operation expenses have grown so we need to manage our administrative expenses more closely.

Kelly Ohlson; it seems like we are going to be overseeing a lot of big projects in the next 10 years. Do we have the staffing bandwidth to do an adequate job of overseeing these projects and is that built into the budget? What is the plan to have adequate staff to oversee these capital projects even though much of it is contracted?

Theresa Connor; we are looking at the organizational staffing approach right now through an assessment. Looking at how we can best oversee these projects and what is the best method- we do contract a lot on the capital side, but we may need to look at some of our staffing analysis as we get into this because there is a lot of work to do on the linear side, but we have been keeping up better at the water and wastewater plants. We are going to have to look at that – how we administer these projects and do we do them in the typical way we always have done them and that is part of our ongoing assessment.

Kelly Ohlson; are some of those funds built into this 10-year projection? Do we contract or hire more people?

Theresa Connor; some of it will be in the budget but it may not all be captured there.

Emily Francis; increasing the rates to maintain current levels of service - Are current levels of service adequate and appropriate and is that what we are planning for or are we looking at changing those?

Lance Smith; we do community surveys, and we have the impression that our community is generally happy with our current levels of service – we are trying to maintain current levels of reliability and we always strive to improve customer experience as we can. Reliability is the primary level of service.

Emily Francis; Did you say that the rate increase in 2024 would amount to \$60 per year?

Lance Smith; what the average residential customer would be paying in 2023 would be \$60 more than 2022 – and in 2024 it would be \$60 more than 2023 (per year)

Emily Francis; so, the increase is \$120 over 2 years - concerns regarding increases and their impact to folks who don't qualify for assistance through AMI guidelines – concerning that is a pretty big increase -

Julie Pignataro; when you add increases up – a lot of job - where people don't get raises and when all things are increasing it is tough. I hope that we can expand programs and look at how we help our utilities customers who need it.

Our benchmarks for this debt are going to be every two-year budget cycle.

Lance Smith; that will be in the review - currently we have approximately 35K water customer and 70K electric customers – about half of our residents are customers of all 4 utilities.

Julie Pignataro; do we have any speculation on rate increases for people who have service outside of the city?

Lance Smith; we have good relationships with our PRPA sister cities so we can figure out what they are trying to do as well but I don't have that in front of me, but I know we presented that as part of the 2022 rate adjustment that we brought to council. I can get that information to you in a memo.

Julie Pignataro; not totally necessary – my concern that those who don't have 4 utilities may see a disproportionate- How do we capture that for someone who might need help?

Kelly Ohlson; why do we have reduced commercial wastewater demands?

Lance Smith; some of our customers have tried to do their own water treatment or pretreatment so they have reduced demands on our system

Theresa Connor; high oxygen water they will do treatment systems, so they don't have to pay

Kelly Ohlson; perhaps we could look at broadening the AMI qualification for utilities assistance programs to try to get to the next 10% - possible solutions.

Lance Smith; we could look at a tiered program - that might require more administrative work Right now, we rely on outside companies to do the income verification.

Kelly Ohlson; talking about long term impacts on people - I am good

B. Consideration of New Revenue Sources

Jennifer Poznanovic, Sr. Revenue Manager Ginny Sawyer, Sr. Project Manager

EXECUTIVE SUMMARY

The purpose of this item is to discuss specific identified revenue needs and potential funding options.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

- 1. What questions does Council Finance Committee have on the identified revenue priorities?
- 2. Which revenue options should staff pursue?
- 3. Does Council Finance Committee have questions regarding upcoming election opportunities?
- 4. Does Council Finance Committee agree with staff proposed next steps?

BACKGROUND/DISCUSSION

The three revenue needs identified through master plans include parks, transit, and housing. Annual shortfalls range from six to ten million per need. Parks and transit have specific operational plans and a focus on asset management. Housing continues to be a top Council and community priority.

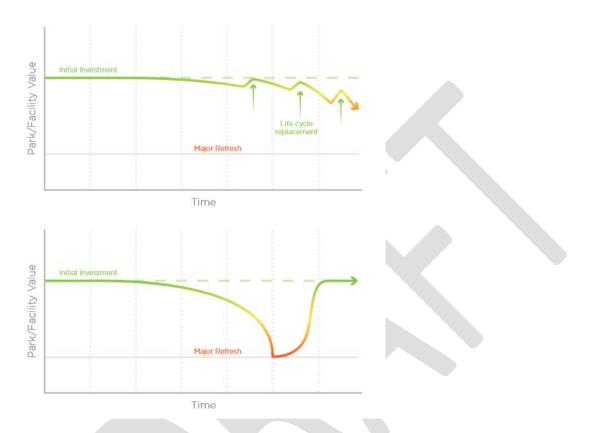
Parks and Recreation

The Parks and Recreation Master Plan was adopted on January 19, 2021, and incorporated a year of extensive staff, community, and stakeholder participation. The funding section of the plan features a primary goal to enhance the financial sustainability of Parks and Recreation. While existing operations and maintenance budgets are close to what is needed, there are no dedicated funding sources for capital investment. The funding gap identified in the plan is captured in the table below:

Funding Gap \$M per Parks and Recreation Master Plan (page 307)							
	Operations and Maintenance Life Cycle Replacement Minor Refre						
Parks	\$ 1.0	\$ 5.5	\$ 2.7				
Recreation	\$ -	\$ 0.1	\$ 2.2				
Planting Refresh			\$ 0.6				
Total	\$ 1.0	\$ 5.6	\$ 5.5				

- Operations and Maintenance the daily tasks needed to keep parks and recreation facilities running and minor repairs to capital assets to keep them in a good state of repair.
- <u>Life Cycle Replacement (Capital)</u> includes critical maintenance projects or repair of existing assets—when regular maintenance can no longer keep them in a good state of repair—safety and ADA (Americans with Disabilities Act) improvements, and existing debt service obligations. Many of these types of improvements typically require one-time funding and are not likely to increase annual operations and maintenance costs. In many cases, these types of projects may reduce annual operations and maintenance costs.
- <u>Minor Refresh (Capital)</u> Minor refreshes include strategic changes to existing parks or recreation facilities to better meet the unmet needs of the community, including adding features such as play fields, shade structures, adult fitness equipment, covered picnic shelters, and trail loops to extend recreation opportunities. Minor refreshes may also include a refresh of plantings or other design elements within the framework of an existing, relevant site master plan. These types of improvements typically require one-time funding and may trigger slight increases in annual operations and maintenance costs, depending on the nature of the improvements.

The Parks and Recreation master plan identified primary goals of providing equitable access to parks and recreational experiences. By investing in ongoing life-cycle replacements and minor refreshes, community members will experience a more consistent level of service across existing amenities, while the City minimizes costs associated with the need for a major refresh.



Transit

The Transit Master Plan (TMP), adopted by Council in April of 2019, outlines the vision and policies for expanding the transit system according to current and future demand. The costs over the next 20 years are significant and are not currently funded:

Investment	Cost
Capital Projects (pg. 73)	\$271 Million to \$308 Million
Operations and Maintenance in 2040	\$30.5 Million per year

Table from page 85 of the Transit Master Plan

The costs in the above table are expected to include federal grant funding to be matched by local dollars. Based on current federal allocations, the following assumptions have been made:

- Capital Projects Expect 50% Federal Match
 - Local need over 20 years: \$7.7 million annually
- Operations & Maintenance Expect 25% Federal Match
 - Local additional need at full build-out: \$9.75 million annually

It is important to note that the cost estimates outlined in the TMP were based on 2016 operating figures and assumptions. These projections did not account for the transition of the Transfort fleet from CNG to zero-emission vehicles, which have a significantly higher up-front cost, but an expected lower operating and maintenance cost over the life of the vehicle.

Staff have hired a consultant to conduct a comprehensive Funding Study for Transfort, which will include:

- Updated capital, operating and maintenance estimates for the 20-year span of the TMP
- Identification of a preferred, dedicated, and permanent funding source or sources, including extensive public outreach
- Full analysis of the current fare structure and associated costs, as well as feasibility of a fare-free system

The Funding Study is expected to conclude no later than quarter 4 of 2022.

The TMP is an ambitious plan intended to transform mobility options throughout the City and region. This plan is also key to the City's Climate Action Plan. Plan highlights are described in the following graphic:

Plan Highlights Regional Service High frequency focus **Bus Rapid Transit** · 3 new Bus Rapid Transit routes High Frequency Service (15 min all day) · 30 minute service or better throughout the system (other than Frequent Peak Service (15 min peak/30 min off peak) BRT routes) Local Service Regional connections Transit Center/ Mobility Hub Mobility Hubs Mobility Innovation Zone Innovation Zones Plan Area (on- demand service)

Projects in support of the TMP, which are currently in development include, but are not limited to:

- West Elizabeth Bus Rapid Transit (BRT) This project is near completion of 30% design which will result
 in eligibility for Small Starts grant funding (the same program that helped complete MAX) as early as
 2023, if local match can be secured. This project is currently in Project Development with the Federal
 Transit Administration (FTA)
- North College BRT extension A transit-oriented development (TOD) study is currently being conducted and is expected to complete in quarter two of 2022.
- North Transit Maintenance Facility Transfort has exceeded capacity at the Transit Maintenance Facility
 on Portner Road and further service expansion will require an additional facility. Staff are currently
 identifying potential locations for the new facility and will soon have a funding need to purchase this
 real estate. Once design is complete, staff will seek federal grant funding to build this project.
- Fleet Electrification Master Plan

Housing

Data compiled for the Housing Strategic Plan (HSP) illustrates that the housing needs in Fort Collins are concentrated at the lower end of the income spectrum. For renters, the need is greatest at 60% AMI and below (\$41,880 for a 2-person household); for owners, the need is greatest at 120% AMI and below (\$83,760 for a two-person household). However, it is important to acknowledge that there are also gaps in housing supply throughout the entire housing system. City Plan estimated a housing shortage of approximately 2,000 units by 2040, assuming that growth and housing production remained relatively consistent over time. In short, housing price escalation and limited availability of housing in Fort Collins will likely continue to worsen unless we can increase the overall supply of housing while also seeking to increase the community's inventory of deed-restricted, affordable housing.

Rental Affordability, Fort Collins, 2019

Note: Income limits assume a 2-person household and allow for 30% of monthly income for housing costs. Source: 2019 American Community Survey (ACS), HUD 2019 Income Limits, and Root Policy Research.



Ownership Affordability, Fort Collins, 2019

Note: Shortage shown in percentage points (%pp). Income limits assume a 2-person household and allow for 30% of monthly income for housing costs including 30-year fixed mortgage with 4% interest rate and 5% down payment.

Source: 2019 ACS, Larimer County Assessor Sales Database 2020, HUD 2019 Income Limits, and Root Policy Research.



Cumulative Supply and Demand by Income and Affordability Level

In 2015, affordable housing made up 5% of the City's housing stock. Between 2015-2019, the City and its partners added 373 new affordable homes. In 2020 and 2021 to date, an additional 246 homes were added to

the City's affordable housing inventory. However, the total number of housing units has also increased proportionally, which means that affordable units still make up only 5% of our overall housing stock. To get back on track to achieve our 10% goal by 2040, we need to increase the amount of affordable housing by 282 or more units every year from 2020 onward. This is more than double the City's average annual production of affordable housing.



While the City has affordable housing incentives and provides between \$2 million to \$3 million in direct subsidy funding every year, these resources are not enough to meet the City's affordable housing goals. The City needs about 700 additional affordable units to meet our 2020 goal of 6% of all housing being affordable. Assuming a \$39,000 investment by the City yields one unit of affordable housing, the City would need to invest \$28,000,000 of direct subsidy funding to close the 2020 gap..

On an ongoing basis, the City's annual affordable housing production goal is 282 units or more of affordable housing each year. Again, assuming that a \$39,000 investment yields one unit of affordable housing, the estimated annual funding need for affordable housing is \$10-11.5 million per year (\$8-9.5 million above current levels). This calculation also assumes that federal subsidies for the development of affordable rental housing (Low Income Housing Tax Credits) remain steady, that there are enough tax-exempt government bonds (Private Activity Bonds, or PABs) available to support each project, and that private developers have the ability to deliver projects.

The strategy section of the Housing Strategic Plan includes recommendations for new and expanded tools and funding sources to better support achieving our housing goals. Strategy 11 specifically recommends creation of a new dedicated revenue stream for affordable housing:

Revenue Options for Housing (Strategy 11 – Create a new dedicated revenue stream to fund the Affordable Housing Fund): Though Fort Collins invests \$2-3 million into affordable housing production and preservation annually, the HSP estimates that the total annual funding need is closer to \$10-11.5 million. Exploring a range of options (sales tax, impact fees, inclusionary housing fees-in-lieu, etc.) to generate consistent, dedicated, and flexible revenue for affordable housing will be a critical piece of HSP implementation. In addition, the current Community Capital Improvement Program quarter-cent sales tax that funds the Affordable Housing Capital Fund and other capital improvements will expire in 2025.

Potential Revenue Options

Below is a list of potential revenue options for consideration:

	Option	Voter approval	Δ in governance	Resilient to recession	Precedent to residents	Stakeholder Impact
1	Increase the base rate	X			X	Resident, Individual
2	Dedicated sales tax	X			X	Resident, Individual
3	Repurpose ¼ cent dedicated taxes	X			X	Resident, Individual
4	Fees (parks, transit)			X	X	Resident
5	Property tax	X		X	X	Resident
6	Reconfigure capital expansion fees				X	Business
7	Tax on services	X				Resident, Individual
8	Tax on specific goods (marijuana, tobacco, alcohol, sugar beverages, etc.)	X				Resident, Individual
9	Fundraising				X	N/A
10	Special districts	X	X	X	X	Resident
11	Business occupational privilege tax	X				Business

Below are estimates of annual revenue projections for several potential revenue options:

Option	Annual Revenue Projection
Special district mill levy	\$11M+
¼ cent tax increase	\$9M+
Excise tax (ex: sugar beverages at \$0.02 per fluid ounce)	\$4M+
\$4 monthly occupational privilege tax (\$48/yr)	\$4M+
\$5 monthly fee (ex: transit, parks) (\$60/yr)	\$4M
3% tax on marijuana	\$3M
Reconfigure CEF parks fees	\$2M

Regarding Capital Expansion Fees (CEFs) it is important to note that per City Code, these fees collected are for the purpose of funding additional capital improvements required to address the impact of growth within the City as the City's population increases. They intend to regulate the use and development of land by ensuring that new growth and development in the City bear a proportionate share of the capital expenditures necessary to provide community parkland, police, fire protection, general government, neighborhood parkland and transportation capital improvements to address the impacts of growth. If Council Finance Committee chooses to further explore this option, staff will need to work with the City Attorney's Office, as reconfigured CEFs do not fall within the current standard models for CEF analysis. In addition, the imposition and calculation of CEFs, as impact fees, are legally constrained by certain constitutional and statutory requirements and limitations.

Another option is to consider these needs as existing dedicated taxes are set to expire and new measures are developed. Both the quarter cent street maintenance and Community Capital Improvement Program (CCIP)

dedicated taxes are set to expire in December of 2025. Each quarter cent tax raises an estimated nine million per year.

Timeline

Below is the current timeline for Council Meetings along with potential election opportunities:



Proposed Next Steps

After direction from Council Finance Committee, staff plans to kick-off the project with the team comprised of executive sponsors, a core team, financial analysts, and subject matter experts. Staff plans to discuss findings and an engagement outreach plan with Council during a work session in quarter two of 2022.

DISCUSSION / NEXT STEPS:

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

- 1) What questions does Council Finance Committee have on the identified revenue priorities?
- 2) Which revenue options should staff pursue?
- 3) Does Council Finance Committee have questions regarding upcoming election opportunities?
- 4) Does Council Finance Committee agree with staff proposed next steps?

Travis Storin; Let's consider a reverse of question #2 above. Are there any revenue options we should NOT be pursuing?







Proposed Next Steps

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Staff team project kick-off:

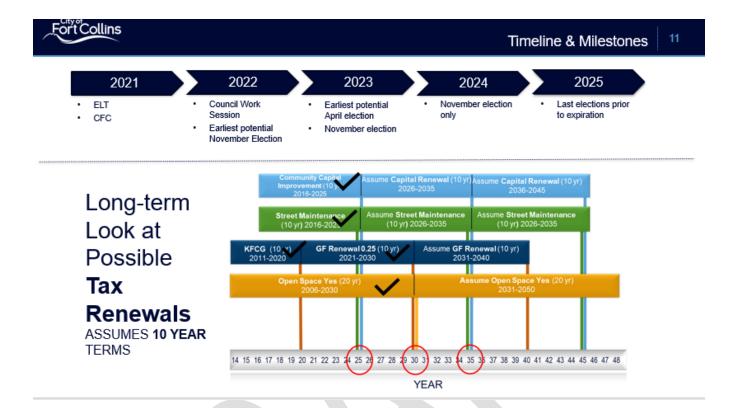
- Official project team kick-off after direction from CFC
- Council Work Session in Q2 2022
- Develop engagement outreach plan

Julie Pignataro; When was the last time a city tax increase did not pass?

Kelly Ohlson; Off the top of my head there was one in 1983 on the ballot and it failed and there was a city sales tax for a zoo tax that failed in 1992.

Ginny Sawyer; and in 2002 there was a ¼ cent transportation tax in and a 1% for construction to fund certain transportation capital improvement projects.

Kelly Ohlson; yes, I think that was the second go round for the transportation tax



Julie Pignataro; regarding slide 12 (see above)

I know the election code committee is talking about a possible ballot initiative to move all elections to November. What are your thoughts? If they were moved to November, what happens to the taxes expire in April?

Ginny Sawyer; all of our taxes are written to expire on December 31st. We try to go back to voters before our last possible chance prior to expiration. If we went with only November elections, we would need to start looking even future ahead and back up our timeframe. Not my area of expertise but maybe a special election would be possible. If we didn't pass and it expired, we might be without those dollars for a year.

Julie Pignataro; that also doesn't give us as much of a feedback loop opportunity

Travis Storin; Ginny mentioned having to prepare contingents budgets or two versions of the budget to account for the possibility of something not passing – we will, of course, do whatever the council asks here – that is a more intensive proposition and doesn't always result in the best kind of decision making either. If we were to move to November elections, the odd number years are the most attractive as those are the years as we would not be asking Council to adopt a budget without some certainty around taxation measures in place. That is particularly clear if there is a new ¼ cent but also true with renewals as well.

John Duval; We are further limited because of TABOR. We cannot have special elections for TABOR questions and all of these taxes would be TABOR questions. So, we can only hold elections on our election dates in April and November.

Julie Pignataro; the influx of funds due to ARPA and the new infrastructure bill have given me a new appreciation for one time money versus what we need for on-going. Looking at the list of the top 3 (slide 2 – see below). Is part of transit expanding BRT or is it just to keep things status quo?



New Revenue Consideration

Revenue needs identified through master plans

- PARKS \$6M to \$9M annual shortfall (Parks & Recreation Master Plan)
- TRANSIT \$8M to \$10M annual shortfall (Transit Master Plan)
 - Funding study underway results expected October 2022
- HOUSING \$8M to \$9.5M annual shortfall (Housing Strategic Plan)

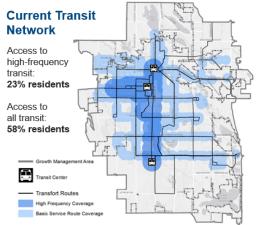


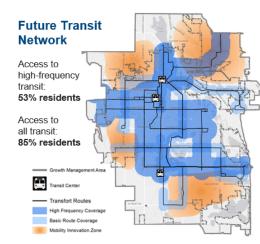


Transit Master Plan Build-Out



*Funding study underway now to refine costs.





- · Capital Projects Expect 50% Federal Match
 - Local need over 20 years: \$7.7 million annually
- Operations & Maintenance Expect 25% Federal Match
 - Local additional need at full build-out: \$9.75 million annually

Travis Storin; across a ten-year period, you would look at a lot of front-loaded capital in order to expand fixed route and BRT and then the back half of that ten-year period becomes the operational cost of running those new assets that we put into service.

Drew Brooks; (refer to slide 4 above) the upfront costs are building up the capital for BRT and other route expansions -You are looking at big increase in frequency for the entire city so as we build that out you are looking at a lot of capital where we are buying buses and building infrastructure such as bus stops but of course BRT is a big piece of that. Those capital projects would become the first part and then we would have to start transitioning some of those dollars toward operations as we will bring each of those projects online

Julie Pignataro; where do grant opportunities or some of these other one-time funding opportunities fit into any of this if at all?

Drew Brooks; at the bottom of slide 4 (above) we are looking at what we have seen over the last several years as far as what kind of matches we need to match with federal dollars. To give you an example, the one we are looking at for the West Elizabeth corridor is called the Small Starts program which is what we used for MAX. Our match for MAX was an 80% federal /20% local funding. We are seeing that change and things are becoming much more competitive with more like a 50/50 match for big projects which might change with the new infrastructure bill as there are a lot of dollars coming toward transit funding which might change the balance of what we have been seeing around the county but right now for a big project like BRT we can expect close to a 50/50 match.

The match can sometimes be higher for capital – for example when buying buses, it can be 80% federal 20% local but for building projects such as the actual infrastructure it is more like a 50/50 match.



	Option	Voter approval	Δ in governance	Resilient to recession	Precedent to residents	Stakeholder Impact
1	Increase the base rate	X			X	Resident, Individual
2	Dedicated sales tax	X			Χ	Resident, Individual
3	Repurpose ¼ cent dedicated taxes	X			X	Resident, Individual
4	Fees (parks, transit)			X	X	Resident
5	Property tax	X		X	X	Resident
6	Reconfigure capital expansion fees				X	Business
7	Tax on services	X				Resident, Individual
8	Tax on specific goods (marijuana, tobacco, alcohol, sugar beverages, etc.)	X				Resident, Individual
9	Fundraising				X	N/A
10	Special districts	X	X	X	X	Resident
11	Business occupational privilege tax	X				Business

Julie Pignataro; Revenue Options (slide 10 above) Where my thoughts go in response to question #2 I would like to stay away from any fee or tax on a necessity. People who can afford luxury - that we are putting a tax on - for example, utilities versus marijuana - necessities should not be taxed (pink tax is an example). I would like to stay away from a fee or tax on any necessity. Fee or tax on luxury or non-necessities.

Ginny Sawyer; when we mention a park or transit fee - the utility bill is a vehicle/ means to reach and bill all of our residents a flat fee to provide funding for those desired basic needs (the billing is only a mechanism to reach citizens and collect a fee)

Julie Pignataro; does everyone who lives in the city get at least one utility from us?

Theresa Connor; L&P does serve the entire city and outside the city a bit so we may have to do a bit of scrubbing for possible outlier issues.



- Average annual funding: \$2 million \$3 million a year
 - Competitive Process (CDBG/HOME) funding \$1.5-2.5 million (Federal)
 - Affordable Housing Capital Fund (CCIP) \$4M (sales tax; expires 2025)
- Average affordable housing City subsidy, 2015-2020: ~\$39,000 per unit (CCIP/Federal)
 - Expected yield given current average funding: 38-77 units per year
 - · Annual affordable housing production goal: 282+ units per year
- Total funding need: \$10-11.5 million annually
 - Estimated annual ongoing need: \$10-11.5 million (additional \$8-9.5 million from current)
 - 700 units behind 2020 goal

Emily Francis; (slide 5 - see above) the \$9M debt for housing - is that with the assumption that we would have the available life-time private activity bonds to match or is this current levels?

Meghan Overton; the assumptions you see in front of you are based solely on how much would it take to create a unit of housing given the city's historic levels of subsidy - there are several complex calculations in here that you are not going to see on this slide yet - a lot of discussion about private activity bonds and whether the required percentage of funds will be changing with upcoming legislation - there are lots of moving parts right now - this is more back of the napkin calculation at this point knowing that we also need low income housing tax credit and private activity bond capacity to actually have that resolved in a unit of housing.

Emily Francis; I also have questions around appropriate levels of service especially with our gap in parks and the level of maintenance that we have there – I still have a lot of questions around how those feeds into this. I would like for us to keep these things in mind as we have conversations. For parks, I would like to look at the CEF and reconfiguring that - residents notice that when new areas are built, and they have a great new park - residents feel these inequities – tennis courts are old and need upgrading for example – especially for my district because we are so built out – they notice these inequities - would the reconfigured CEF address this?

Travis Storin; that is very close to what we are looking to propose - the idea being that in their current iteration we have capital expansion fees that are written by code to exclusively fund new geographic areas of service - a reconfiguration here would be to allow redevelopment, infill type projects to be used for existing park facilities for refresh type of investments in addition to net new facilities and that can be accomplished by code with the council without an election.

John Duval; with respect to capital expansion fees, they are considered impact fees that are supposed to be imposed based on the fee payers (developers, builders, homeowners) impact - their growth's effect on the city – buying into the system essentially pay for their impact on the system so it is tied to growth. There are some state statues that limit how those fees that can be imposed and calculated as well as some constitutional limits related to TABOR that you must be able to distinguish them as a valid impact fee and not a tax. That is what we struggle with / deal with in terms of determining how the CEFs can be reconfigured and that is what we are going to be looking into – if they are just imposed as a special fee - like the \$5 fee that would be put on everybody's utility bill like the transit fee - those might be more easily done as a special fee that everyone pays, and everyone gets the benefit whereas the impact fee is essentially being paid for by the person purchasing the property and the developer so that is the distinction that must be considered with reconfiguring the CEFs and parks.

Emily Francis; I would be a big fan of looking at that - I understand that we have a pretty low tax base and rate compared to others, but I feel like taxes can be so regressive so while we may need to look at some dedicated sales tax, I am more a fan of fees on people who overuse the system - have we looked at fees for entities that have really high CO2 emissions, maybe our top polluters, a fee on houses that may be over 2,000 sq ft - these really high users of our systems, fees for people who are super users of the utilities. I would like to look at those fees and how do we use those fees to support 1) raise the appropriate funds and to direct where we are trying to go – example is a fee on our high CO2 emitters because it might incentivize them to change behavior and address our climate action plan.

Same with getting more housing diversity, setting a fee on large footprint houses. I think Boulder does that for houses over a certain size. I am in support of looking at a special tax on marijuana. I am not a fan for taxing sugar sweetened beverages because I also think that is regressive. We are trying to encourage people to not drink soda so that would be a tax that would decline.

We absolutely need to look at funding for the three areas we are talking about - we keep hearing that housing is the #1 thing and we just don't have the funds to address it as well as transit and parks.

Kelly Ohlson; concerns over the time allocation for this very important issue - needs in the area of \$30M a year - time allocated way too short - as an organization we need to take this a little more seriously. We need to have adequate time – 90 minutes at the next meeting to dig deeper into these things.

As opposed to getting all of the data in and presenting it in a consistent format – it looks like parks and transit and housing were cut and pasted housing – for the next meeting I would suggest that all be presented in the same way with their own individual charts

If I add up the parks and rec chart it is \$12.1M but the other slide says \$6-9M For transit for O&M and capital it is \$17.4 M per year but here is \$8-10M per year Housing has some similar issues on the math The numbers need to add up on the charts

In response to the final question, next steps look fine.

Options Slide - property tax is far less regressive than many other taxes, but you did not give a dollar figure – you gave limited dollar figures for certain items - In the future, when you have options – have

the same chart showing – include how much it increases per year - don't be selective with what ones you do show - I didn't see a fund-raising option for a mill levy increase on property tax.

I am a believer in sales tax as part of the mix, but now we are flirting with 9% in a combined sales tax. That is too high for me, so I am not going to be too interested in talking about an increase there.

I am interested in the area expiration of ¼ cent sales tax so instead of spending that money on park trains, we apply that money to affordable housing, transit, childcare, and parks & recreation. That is a \$9M soon to be \$10M item that takes care of \$9-10M of the \$30M. Then we are down to \$20M and funding things that are significant to the residents of Fort Collins.

Concerned about combining the governance issues with revenue issues.

If the governance committee of the council recommends because we believe it is the best governance model and then if the council concurs that November is the best time for elections then this issue should not become part of the discussion. If we come up with good proposals for taxes or fees, for whatever the voters need to vote on - this community has a history of saying yes if they are thought out with good community involvement and outreach, a good process, rational thought behind it and the mostly united council they pass by 60- 40% or 70- 30%. If that is the best governance model it will come into place.

I have a different take on the marijuana tax - part of the reason that is changing nationally is one because of the equity issues, the justice issues and the hypocrisy around alcohol and marijuana and other things. The other part is organized crime and cartels control much of the market. Better to have local businesses controlling the majority of the marijuana market - safer What is happening all over the country is that we are adding tax after tax and legal marijuana sales are declining and illegal sales are increasing because of the taxes generated. The culture will be better off if it is local business people and not cartels.

Tax on services is another one that we didn't get a revenue generation estimate on. I am open to a fee communicated on a utility bill to help our parks and transit. I would like as soon as possible any clarification on my math on the recommendation of \$8-10M for transit, but I see a buildout for \$17M per year. The chart says \$12.1 M for parks, but the slide says \$9M for parks.

Drew Brooks; for the transit numbers, we are incorporating what we would anticipate getting in federal dollars, so we backed the federal dollars out those numbers and did the math there.

Kelly Ohlson; says local need for full buildout and operations is \$9.75M – that comes to \$17.4M

Drew Brooks; I understand it is confusing, we think we will need upfront for capital - we will need to build that out first and then we will need the operating dollars – would not be \$9.75M initially

Kelly Ohlson; any refinement we can do to the numbers provided – what they would do for parks, transit, and housing – what we would actually get – as specific as possible. On the housing follow up

number of units \$9-10M per year – is that all in long term deed restricted housing being it rental or ownership?

Meghan Overton; for housing, the answer is yes the funding would be used to help increase restrictedaffordable units - we have considered extending the 20 years eligibility

Julie Pignataro; I was looking at this as the beginning of the conversation but appreciate your points.

Travis Storin summarized back to the committee what was heard and go forward steps;
Today's conversation is really revealing in terms of areas we need to explore further.
We wanted to strike a balance for an early conversation recognizing that we do need to delve much deeper in term of the detail revenue projections and spend projections as we progress with the committee and ultimately with the full Council

One of my objectives today was to determine if there was council member interest in proceeding with the work around configuring these various options versus a council that might not agree with the nexus of needing new revenue in the first place. I do feel like we attained that today with sufficient agreement for need for additional revenue. We would like to bring this back in January and answer some of the questions and provide some of the additional data and allow a lengthy amount of time to ensure additional discussion. We will quantify the dollars around each of the revenue options and we will talk about the impacts of the different funding sources both in terms of level of service as well as the impact to community members.

Kelly Ohlson; I like Emily's ideas on our menu of options to pursue for revenue - she had mentioned two or three.

Tricia; I liked them as well.

Other Business

Need to reschedule upcoming Council Finance Committee Meetings to accommodate members; 4-6 pm on the 1st Thursday of the month was proposed. To accommodate schedules the February meeting was proposed to be scheduled for Friday, February 4th - 3-5 pm. Carolyn Koontz will confer with Sarah Kane and updated meeting invitations will be sent out accordingly.

Meeting adjourned at 5 pm.

COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

STAFF: Blaine Dunn, Accounting Director

DATE: January 6, 2022

SUBJECT FOR DISCUSSION: 2022 Financial Policy Review

EXECUTIVE SUMMARY: Once a year a portion of Financial Policies are reviewed and updated as needed. Staff is committed to reviewing each policy no less than every 3 years.

Policies up for review this year are:

Financial Management Policy 7 – Debt

Financial Management Policy 8 – Investment

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does Council Finance Committee support the changes as recommended?

BACKGROUND/DISCUSSION

Financial Management Policy 7 – Debt: This policy has four sections with recommended changes

- Section 7.3 Types of Debt and Financing Agreements
 - o Clarify when equipment leases can be used
 - o Clarify parameters for conduit debt
- Section 7.4 Debt Structure and Terms
 - o Remove language of capitalizing interest per new accounting standards
- Section 7.8 Inter-agency Loan Program
 - o Section is being moved from Policy 8 Investment, with no additional changes
- Section 7.9 Other
 - Clarify additional items to be included on future Debt Administration Policy

Financial Management Policy 2 – Revenue: Throughout the Policy the Poudre River Library District is added for who this policy applies to. This policy has four sections with recommended changes:

- Section 8.1 *Policy*
 - o Clean up language
- Section 8.6 Suitable and Authorized Investments
 - o Clarify there are no split ratings allowed on purchased investments
- Section 8.7 Diversification and Liquidity
 - o Renaming section to remove duplicate
 - Clarify Local Government Investment Pools are treated as Cash and Cash Equivalents
- Section 8.8 Inter-agency Loan Program
 - o Removed from policy and added to Policy 7 Debt

ATTACHMENTS

- Presentation Slides
- Policy 7 Debt, with changes highlighted
- Policy 7 Debt, clean version
- Policy 8 Investment, with changes highlighted
- Policy 8 Investment, clean version





Financial Management Policies Review



Does Council Finance Committee support the changes as recommended?



Policy #	Policy Name	Last CFC Review Date	Next CFC Review Date
1	Budget	November 2020	November 2023
2	Revenue	November 2020	November 2023
3	General	November 2020	November 2023
5	Fund Balance	November 2020	November 2023
7	Debt	Today	November 2024
8	Investments	Today	November 2024



Policy 7 – Debt

5



Sections:

- **Authorization for Municipal Borrowing**
- Purpose and Uses of Debt
- Types of Debt and Financing Agreements (clean up)
- Debt Structure and Terms (remove section per new accounting standards)
- Refinancing Debt
- **Debt Limitations and Capacity**
- Debt Issuance Process
- Inter-agency Loan Program (new section moved from Investment policy)
- Other (adding additional information)



7.3 Types of Debt and Financing Agreements

- Clarification on where lease purchases shall be recognized
- Updating which policies additional information can be found

7.8 Inter-agency Loan Program

- This section used to exist within the Investment Policy, but closer aligns with Debt Policy
- No other changes to the policy are recommended

7.9 Other

- Additional clarification on what is included within Debt Administration Policy
- Debt Administration Policy is still under development by staff



Policy 8 – Investment



Sections:

- 1. Policy
- 2. Scope (add Library District to applicability of policy)
- 3. Investment Objectives
- 4. Standards of Care
- 5. Safekeeping and Custody
- 6. Suitable and Authorized Investments (clarify no split ratings)
- 7. Suitable and Authorized Investments Diversification and Liquidity (Rename and add Local Government Investment Pools (LGIP) to cash and cash equivalents)
- 8. Inter-agency Loan Program (remove and put in Debt policy)
- 9. Reporting
- 10. Policy Adoption (clarify cadence of policy updates)



8.2 Scope

Add Poudre River Public Library District to scope of policy

8.6 Suitable and Authorized Investments

Update ratings rules to clarify no split ratings for investments will be allowed

8.7 Diversification and Liquidity

- Update name; previously had two sections named Suitable and Authorized Investments
- Add LGIP to cash and cash equivalents total
 - These pooled funds already meet definition of C&CE

8.8 Inter-agency Loan Program

Remove from Investment Policy and add to the Debt Policy



- Bring Policy changes to City Council for consideration as soon as practical
- These specific policies will be reviewed again no later than 2024



Does Council Finance Committee support the changes as recommended?

THANK YOU!



Debt

Issue Date: 11-19-

13<u>XXXX</u>
Version: 2

Issued by: City Council

ontroller/

Assistant Financial

Officer

Objective:

The purpose of this policy is to establish parameters and provide guidance governing the issuance of all debt obligations issued by the City of Fort Collins (City).

Applicability:

This debt policy applies to all funds and Service Areas of the City and closely related agencies such as the Downtown Development Authority (DDA), Fort Collins Leasing Corporation and the Fort Collins Urban Renewal Authority (URA).

Authorized by:

City Council Resolutions, 1994-174, 2013-093, 2022-xxx

7.1 Authorization for Municipal Borrowing

The City Charter (Article V. Part II) authorizes the borrowing of money and the issuance of long term debt. The Charter and State Constitution determine which securities may be issued and when a vote of the electors of the City and approved by a majority of those voting on the issue.

7.2 Purpose and Uses of Debt

Long term obligations should only be used to finance larger capital acquisitions and/or construction costs that are for high priority projects. Debt will not be used for operating purposes. Debt financing of capital improvements and equipment will be done only when the following conditions exist:

- a) When non-continuous projects (those not requiring continuous annual appropriations) are desired;
- b) When it can be determined that future users will receive a significant benefit from the improvement;
- c) When it is necessary to provide critical basic services to residents and taxpayers (for example, purchase of water rights);

d) When total debt, including that issued by overlapping governmental entities, does not constitute an unreasonable burden to the residents and taxpayers.

7.3 Types of Debt and Financing Agreements

The types of debt permitted are outlined in State statute. The City will avoid derivative type instruments. In general the following debt types are used by the City:

- a) General obligation bonds—backed by the credit and taxing power of the City and not from revenues of any specific project. Colorado law limits general obligation debt to 10% of the City's assessed valuation. Under TABOR this type of debt must be approved by voters.
- b) Revenue Bonds—issued and backed by the revenues of a specific project, tax increment district (TIF), enterprise fund, etc. The holders of these bonds can only consider this revenue source for repayment. TABOR does not require that voters approve these types of debt.
- c) Lease Purchase issued whereby the asset acquired is used as collateral. Examples include Certificates of Participation (COP), Assignment of Lease Payments (ALP) and equipment leases. <u>Equipment leases shall be limited to financing within Internal Service Funds.</u> TABOR does not require that voters approve these types of agreements.
- d) Moral Obligation Pledge—a pledge to consider replenishing a debt reserve fund of another government agency if the reserve was used to make debt payments. This type of commitment will only be used to support the highest priority projects, or when the financial risk to the City does not increase significantly, or when the City's overall credit rating is not expected to be negatively impacted. Because it is a pledge to consider replenishing, it is not a pledge of the City's credit, and as such is not a violation of State statutes and City Charter. However, decision makers should keep in mind that not honoring a Moral Obligation Pledge will almost certainly negatively impact the City's overall credit rating. TABOR does not require that voters approve these types of agreements.
- e) Interagency Borrowing—issued when the credit of an agency (DDA, URA) of the City does not permit financing at affordable terms. Usually used to facilitate a project until the revenue stream is established and investors can offer better terms to the agency. Program parameters are outlined in City's Investment Policy_8.8section 7.8 of this policy. TABOR does not require that voters approve these types of agreements.
- f) Conduit Debt—Typically limited to Qualified Private Activity Bonds (PAB) defined by the IRS and limited to the annual allocation received from the State. Low income housing is one example of a qualified use of PAB. Program parameters are outlined the General Financial Policy 3.6.. There is no pledge or guarantee to pay by the City.
- g) Any other securities not in contravention with City Charter or State statute.

7.4 Debt Structure and Terms

The following are guidelines, and may be modified by the City to meet the particulars of the financial markets at the time of the issuance of a debt obligation:

- a) Term of the Debt: The length of the financing will not exceed the useful life of the asset or average life of a group of assets, or 30 years, whichever is less. Terms longer than 20 years should be limited to the highest priority projects.
- b) Structure of Debt: Level debt service will be used unless otherwise dictated by the useful life of the asset(s) and/or upon the advice of the City's financial advisor.
- c) Credit Enhancements: The City will not use credit enhancements unless the cost of the enhancement is less than the differential between the net present value of the debt service without enhancement and the net present value of the debt service with the enhancement.
- d) Variable Rate Debt: The City will normally not issue variable rate debt, meaning debt at rates that may adjust depending upon changed market conditions. However, it is recognized that certain circumstances may warrant the issuance of variable rate debt, but the City will attempt to stabilize the debt service payments through the use of an appropriate stabilization arrangement.
- e) Derivative type instruments and terms will be avoided.
- a) Interest during construction will be capitalized when the debt is in an enterprise fund.

7.67.5 Refinancing Debt

Refunding of outstanding debt will only be done if there is a resultant economic gain regardless of whether there is an accounting gain or loss, or a subsequent reduction or increase in cash flows. The net present value savings shall be at least 3%, preferably 5% or more. In an advanced refunding (before the call date), the ratio of present value savings to the negative arbitrage costs should be at least 2.

7.77.6 Debt Limitations and Capacity

Debt capacity will be evaluated by the annual dollar amount paid and the total amount outstanding with the goal to maintain the City's overall issuer rating at the very highest rating, AAA. Parameters are different for Governmental Funds, Enterprise Funds, and Related Agencies.

- a. Governmental Funds—Annual debt service (principal and interest) will not exceed 5% of annual revenues. For calculation, revenues will not include internal charges, transfers and large one-time grants. Outstanding debt in relation to population and assessed value will be monitored.
- b. Enterprise Funds—Each fund is unique and will be evaluated independently. Each fund's debt will be managed to maintain a credit score of at least an A rating. These funds typically issue revenue bonds and investors closely watch revenue coverage ratio. Coverage ratios are usually published in the Statistical Section of the City's Comprehensive Annual Financial Statement.

c. Related Agencies—Each agency will be evaluated independently, taking into account City Charter, State statutes, market conditions and financial feasibility.

7.87.7 Debt Issuance Process

When the City utilizes debt financing, it will ensure that the debt is soundly financed by:

- a) Selecting an independent financial advisor to assist with determining the method of sale and the selection of other financing team members
- b) Conservatively projecting the revenue sources that will be used to pay the debt;
- c) Maintaining a debt service coverage ratio which ensures that combined debt service requirements will not exceed revenues pledged for the payment of debt.
- d) Evaluating proposed debt against the target debt indicators.

7.8 Inter-agency Loan Program

- 1. Purpose: The purpose of the Inter-agency loan program is to support City services, missions, and values by making loans to outside entities such as the Urban Renewal Authority and the Downtown Development Authority while maintaining an adequate rate of return for the City.
- 2. Eligible Applicants: The following are examples of situations in which City loans to outside agencies may be appropriate:
 - A. An entity that was created wholly or in part by the City and is in a fledgling stage and does not yet have an established credit history to access the capital markets. Examples include the Urban Renewal Authority, etc.
 - B. An entity related to the City desires to issue debt that will be repaid over a timeframe that would be unrealistic for a private lender. Examples include bonds issued by the Downtown Development Authority for less than 10 years.
 - C. Any other situation in which the Council deems it appropriate to meet the financing needs of an entity that is engaged in services that support the mission and values of the City.

3. Program Guidelines:

- A. The borrowing entity must have approval from its governing body.
- B. The loan must be evidenced by a promissory note.

- C. There must be a reasonable probability of repayment of the loan from an identifiable source such as TIF revenues.
- D. The interest rate assigned to the loan must be the higher of the Treasury Note or Municipal Bond of similar duration (3 year, 5 year, etc.), plus 0.5%, subject to the following minimum (floor).

FLOOR - Minimum Loan Rates

<u>Term</u>	<u>Rate</u>
<u>0 – 5 years</u>	<u>2.75%</u>
<u>6 – 10 years</u>	<u>3.25%</u>
<u>11 – 15 years</u>	<u>3.75%</u>
<u> 16 – 25 years</u>	4.00%

- E. The loans must be limited to 25 years.
- F. City Council must review the request and approve the amount and terms and conditions of the loan.
- G. Loans of Utility reserves must be reviewed by either the Energy Board or Water Board in advance of City Council, or other board consideration, and must meet the following additional criteria:
 - a. the City Council must make a formal finding that the funds will not be needed for utility purposes during the term of the loan, and that the terms and conditions of the loan represent a reasonable rate of return to the Utility; and
 - b. utility rates must not be increased for the purposes of funding the loan.
- 4. Limit on Funds available for Loan Program
 - A. Governmental Funds: Total loans shall not exceed 25% of the aggregate cash and investments balance of the governmental funds (i.e., General Fund and Special Revenue Funds).
 - B. Enterprise Funds: Total loans shall not exceed 5% of the aggregate cash and investments balance in the enterprise funds (i.e. Utility Funds and Golf Fund).

- C. Operating and capital needs of the loaning funds shall not be significantly impaired by these loans.
- D. Loans should not impact the loaning funds compliance with minimum fund balance policies, timing of intended uses, etc

7.9 Other

Debt Management - The City will also have an <u>a</u>Administrative<u>ly approved Debt Administration</u> Policy and Procedure <u>53</u> that includes guidance on:

- a) Investment of bond proceeds
- b) Market disclosure practices to primary and secondary markets, including annual certifications, continuing disclosures agreements and material event disclosures
- c) Arbitrage rebate monitoring and filing
- d) Federal and State law compliance practices
- e) Ongoing Market and investor relations efforts
- f) Identify a Chief Compliance Officer
- g) System of actions and deadlines
- fh) Records to be maintained

Getting Help

Please contact the Controller/Assistant Financial Officer Director of Accounting with any questions at 970.221.6784.

Related Policies/References

- The City of Fort Collins Charter (Article V., Part II)
- Investment Policy
- Debt Administration Policy and Procedures 53

Definitions

Conduit Debt: 1- An organization, usually a government agency, that issues municipal securities to raise capital for revenue-generating projects where the funds generated are used by a third party (known as the "conduit borrower") to make payments to investors. The conduit financing is typically backed by either the conduit borrower's credit or funds pledged toward the project by outside investors. If a project fails and the security goes into default, it falls to the conduit borrower's financial obligation, not the conduit issuer (City). 2- Common types of conduit financing include industrial development revenue bonds (IDRBs), private activity bonds and housing revenue bonds (both for single-family and multifamily projects). Most conduit-issued securities are for projects to benefit the public at large (i.e. airports, docks, sewage facilities) or specific population segments (i.e. students, low-income home buyers, veterans). 3- In some cases, a governmental entity issues municipal bonds for the purpose of making proceeds available to a private entity in furtherance of a public purpose, such as in connection with not-for-profit hospitals, affordable housing, and many other cases. These types of municipal bonds are sometimes referred to as "conduit bonds." One common structure is for the governmental issuer to enter into an arrangement with the private conduit borrower in which the bond proceeds are loaned to the conduit borrower and the conduit borrower repays the loan to the issuer. For most conduit bonds, although the governmental issuer of the bonds is legally obligated for repayment, that obligation usually is limited to the amounts of the loan repayments from the conduit borrower. If the conduit borrower fails to make loan repayments, the governmental issuer typically is not required to make up such shortfalls. Thus, unless the bond documents explicitly state otherwise, investors in conduit bonds should not view the governmental issuer as a guarantor on conduit bonds.

- <u>Credit Enhancements:</u> the requirement that a certain percentage or amount of non-federal dollars or inkind services be provided in addition to the grant funds.
- <u>Interagency:</u> the individual responsible for fiscally managing the grant award and the person who maintains the records in the City's financial system.
- <u>Debt Service Coverage Ratio</u>: is a common measure of the ability to make debt service payments. The formula is net operating income (operating revenue operating expense) divided by debt service (annual principal and interest)

Debt

Issue Date: XXXX

Version: 2

Issued by: City Council

Objective:

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Authorized by:

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 - C. Any other situation in which the Council deems it appropriate to meet the financing needs of an entity that is engaged in services that support the mission and values of the City.

3. Program Guidelines:

- A. The borrowing entity must have approval from its governing body.
- B. The loan must be evidenced by a promissory note.
- C. There must be a reasonable probability of repayment of the loan from an identifiable source such as TIF revenues.

D. The interest rate assigned to the loan must be the higher of the Treasury Note or Municipal Bond of similar duration (3 year, 5 year, etc.), plus 0.5%, subject to the following minimum (floor).

FLOOR - Minimum Loan Rates

Term	Rate
0 – 5 years	2.75%
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16 – 25 years	4.00%

- E. The loans must be limited to 25 years.
- F. City Council must review the request and approve the amount and terms and conditions of the loan.
- G. Loans of Utility reserves must be reviewed by either the Energy Board or Water Board in advance of City Council, or other board consideration, and must meet the following additional criteria:
 - a. the City Council must make a formal finding that the funds will not be needed for utility purposes during the term of the loan, and that the terms and conditions of the loan represent a reasonable rate of return to the Utility; and
 - b. utility rates must not be increased for the purposes of funding the loan.
- 4. Limit on Funds available for Loan Program
 - A. Governmental Funds: Total loans shall not exceed 25% of the aggregate cash and investments balance of the governmental funds (i.e., General Fund and Special Revenue Funds).
 - B. Enterprise Funds: Total loans shall not exceed 5% of the aggregate cash and investments balance in the enterprise funds (i.e. Utility Funds and Golf Fund).
 - C. Operating and capital needs of the loaning funds shall not be significantly impaired by these loans.

D. Loans should not impact the loaning funds compliance with minimum fund balance policies, timing of intended uses, etc

7.9 Other

Debt Management - The City will also have an administratively approved Debt Administration Policy and Procedure 53 that includes guidance on:

- a) Investment of bond proceeds
- b) Market disclosure practices to primary and secondary markets, including annual certifications, continuing disclosures agreements and material event disclosures
- c) Arbitrage rebate monitoring and filing
- d) Federal and State law compliance practices
- e) Ongoing Market and investor relations efforts
- f) Identify a Chief Compliance Officer
- g) System of actions and deadlines
- h) Records to be maintained

Getting Help

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Related Policies/References

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- Investment Policy
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Definitions

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- <u>Credit Enhancements:</u> the requirement that a certain percentage or amount of non-federal dollars or inkind services be provided in addition to the grant funds.
- <u>Interagency:</u> the individual responsible for fiscally managing the grant award and the person who maintains the records in the City's financial system.
- <u>Debt Service Coverage Ratio</u>: is a common measure of the ability to make debt service payments. The formula is net operating income (operating revenue operating expense) divided by debt service (annual principal and interest)

Investment Policy

Issue Date: 12/18/2012XXXX
Version: 5

Issued by: Investment AdministratorCity

Council

Objective:

This policy is to establish guidelines for the efficient management of City funds and for the purchase and sale of investments. The City's principal investment objectives, in priority order are: legal conformance, safety, liquidity and return on investment. All investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Applicability:

This investment policy applies to the investment of all general and specific funds over which the City exercises financial control, including operating funds, Poudre Fire Authority, the Downtown Development Authority, <u>Poudre River Public Library District</u>, Fort Collins Leasing Corporation and the Fort Collins Urban Renewal Authority.

Authorized by:

City Council, Resolutions 90-44, 2008-121, 2009-109, 2010-065, & 2012-119. 2022-xxx.

8.1 Policy

The City of Fort Collins, Colorado (the "City") is a home rule municipality operating under the City Charter. Article V, Part III of the City Charter assigns to the Financial Officer the responsibility of investing City funds. Funds must be placed in investments authorized by the City Council ("Council"). The Financial Officer will administer the investment program to ensure effective and sound fiscal management.

It is the policy of the City to invest public funds in a manner which will <u>protect capital and meet liquidity needs while providing the highest investment return provide the highest investment return while protecting capital and meeting liquidity needs.</u>

8.2 Scope

This policy is to establish guidelines for the efficient management of City funds and for the purchase and sale of investments. This investment policy applies to the investment of all general and special funds over which the City exercises financial control, including operating funds, Poudre Fire Authority, the Downtown Development Authority, Poudre River Public Library District, Fort Collins Leasing Corporation and the Fort Collins Urban Renewal Authority. For purposes of this policy, operating funds include:

General Fund;
Special Revenue Funds;
Debt Services Funds (unless prohibited by bond ordinance);
Capital Projects Funds;
Enterprise Funds;
Internal Service Funds;
Trust and Agency Funds; and
Any newly created Fund, unless exempted by Council.

Unless specifically provided for in the bond ordinance, all bond proceeds, bond reserve funds and pledged revenues must be invested in accordance with the operating funds guidelines set forth in this Investment Policy. Guidelines for investing the funds of the City's defined benefit plan shall be included in the Investment Policy for the General Employees' Retirement Plan, which is monitored and approved by the General Employees' Retirement Committee.

8.3 Investment Objectives

The City's principal investment objectives, in priority order, are: legal conformance, safety, liquidity, and return on investment. All investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

- 1. Legal conformance: The investment portfolio will conform to all legal and contractual requirements.
- 2. Safety: Safety of investment principal and the preservation of capital are primary objectives of the investment program. When making investment decisions, the Financial Officer will seek to ensure the preservation of capital in the overall portfolio by mitigating credit risk and interest rate risk.
 - A. *Credit Risk*: The Financial Officer will minimize the risk of loss of principal and/or interest due to the failure of the security issuer or backer by:
 - a. Limiting investments to the safest types of securities.
 - b. Pre-qualifying financial institutions, securities brokers and dealers, and advisors.

c. Diversifying the investment portfolio to reduce exposure to any one security type or issuer.

Interest Rate Risk: The Financial Officer will minimize the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by:

- a. Whenever possible, holding investments to their stated maturity dates
- b. Investing a portion of the operating funds in shorter-term securities, money market mutual funds, or local government investment pools.
- 3. Liquidity: The investment portfolio must be sufficiently liquid so as to meet all reasonably anticipated operating cash flow needs. This is accomplished by structuring the portfolio so that securities mature to meet cash requirements for ongoing operations. Investments shall be managed to avoid, but not prohibit, sale of securities before their maturities to meet foreseeable cash flow requirements. Since all possible cash needs cannot be anticipated, the portfolio must consist largely of securities with active secondary or resale markets.
- 4. Return on Investment: The investment portfolio will be designed with the objective of maximizing the rate of return on investment while maintaining acceptable risk levels and ensuring adequate liquidity. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investment pooling may be used to maximize the City's investment income. Interest income, from pooling, will be distributed to the participating funds in proportion to each fund's level of contribution.

The Financial Officer will determine whether a security will be sold prior to maturity. The following are examples of when a security might be sold:

- a. A security with a declining credit rating may be sold early to minimize loss of principal;
- b. A security swap would improve the quality, yield, return, or maturity distribution of the portfolio;
- c. Liquidity needs of the portfolio require that the security be sold; or
- d. The Financial Officer will obtain the best rate of return on investments by taking advantage of market volatility and recognizing gains on a portion of the portfolio.

8.4 Standards of Care

1. Prudence: The City has a fiduciary responsibility to protect the assets of the City and to invest funds appropriately. The standard of care to be used by City officials is the "prudent person" rule as specified by CRS 15-1-304, which reads:

"Standard for investments: In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing property for the benefit of others, fiduciaries shall be required to have in mind the responsibilities which are attached to such offices and the size, nature, and needs of the estates entrusted to their care and shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital. Within the limitations of the foregoing standard, fiduciaries are authorized to acquire and retain every kind of property, real, personal, and mixed, and every kind of investment, specifically including, but not by way of limitation, bonds, debentures, other corporate obligations, stocks, preferred or common, securities of any open-end or closed-end management type investment company or investment trust, and participations in common trust funds, which men of prudence, discretion, and intelligence would acquire or retain for the account of another."

The Financial Officer and designees, acting within the guidelines of this investment policy and written procedures, the City Charter and Code, all applicable state and federal laws and after exercising due diligence, will not be held personally liable and will be relieved or personal responsibility for an individual security's credit risk or market price changes, or for losses incurred as a result of specific investment transactions or strategies. (CRS 24-75-601.4, et seq.)

2. Ethics and Conflicts of Interest: City officers and employees involved in the investment process will 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 must disclose any material interests in financial institutions with which they conduct business. They must further disclose any personal financial and investment positions that could be related to the performance of the City's investment portfolio. In addition they must adhere to the rules of conflicts of interest as stated in Art. IV, Section 9(b) of the Charter of the City of Fort Collins, Colorado.

3. Delegation of Authority: The City Charter assigns the responsibility for the collection and investment of all city funds to the Financial Officer, subject to direction from Council by ordinance or resolution. The Financial Officer, subject to City Manager approval, may appoint other members of the Finance Department to assist in the investment function.

Administrative Procedures

- a. The Financial Officer is responsible for all investment decisions and activities, and must regulate the activities of subordinate employees for the operation of the City's investment program consistent with this investment policy.
- b. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Financial Officer.

A. Authorized Designees

- a. The Financial Officer will maintain a list of individuals and institutions that are authorized to transfer, purchase, sell and wire securities or funds on behalf of the City.
- b. This list will be provided to the securities broker or dealer or financial institution prior to the City conducting any investment transactions with the institution.

B. Investment Advisors

- a. The Financial Officer has the discretion to appoint one or more investment advisors, registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940, to assist in the management of all or a portion of the City's investment portfolio.
- b. All investments made through such investment advisors shall be within the guidelines of this Investment Policy.
- 4. Investment Committee: The Investment Committee consists of the Financial Officer and at least 2 other employees of the City that are knowledgeable in the area of governmental investments. The Investment Committee, at the discretion of the Financial Officer, may also include up to 2 private sector investment or banking professionals. The purpose of the Investment Committee shall be to provide advice to the Financial Officer regarding the operation of the investment program.

8.5 Safekeeping and Custody

- 1. Authorized Securities Brokers and Dealers and Financial institutions
 - A. The Financial Officer will maintain a list of financial institutions authorized to provide investment services. The Financial Officer will also maintain a list of approved securities brokers and dealers. This list may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1.
 - B. All financial institutions and securities brokers and dealers who wish to provide investment services to the City must supply the following (as appropriate):
 - a. Current audited financial statements;
 - b. Completed securities broker and dealer questionnaire;
 - c. Proof of National Association of Securities Dealers certification and registration in the State of Colorado; and
 - d. Certification of their review, understanding and agreement to comply with the City's Investment Policy.
 - C. If a financial institution or securities broker or dealer wishes to enter into a repurchase agreement with the city, the institution must sign a Master Repurchase Agreement approved as to form and content by the City Attorney's Office.
 - D. The Financial Officer must conduct an annual review of the financial condition of authorized financial institutions and securities brokers and dealers.
 - E. Investment transactions must be executed with an authorized financial institution or securities broker or dealer except in the following circumstances:
 - a. Commercial paper, banker acceptances and guaranteed investment contracts may be purchased and sold directly from the issuer;
 - b. Mutual funds and money market funds may be purchased, sold and held directly with the funds;
 - c. Investments in local government investment pools may be transacted directly with the pool; and
 - d. Bond refunding and lease escrow agreements will be executed as provided in the bond and lease documents.
 - F. The Financial Officer will establish a safekeeping agreement with an approved financial institution to act as a third party custodian. Investment securities will be held for the City by the custodian. When applicable, the Financial Officer shall establish a separate securities lending agreement with the custodian bank. The selection of the City's primary depository

- and primary custodian will be made through the City's competitive Request for Proposals process.
- 2. *Delivery versus Payment*: All trades will be executed by delivery versus payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by the City's third-party custodian as evidenced by safekeeping receipts.
- 3. *Internal Controls*: The Financial Officer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the city are protected from loss, theft or misuse.

8.6 Suitable and Authorized Investments

As a home rule city, the City may adopt a list of acceptable investment instruments differing from those outlined in CRS 24-75-601.1. Pursuant to Article V of the City's Charter the Council has adopted the following Ordinances and Resolutions establishing the framework under which the Financial Officer must conduct his duties: Ordinance 90, 1993; Ordinance 108, 1988, Resolution 85-134; and Resolution 82-70. Council may adopt additional Ordinances or Resolutions that require modification of these investment tools.

- 1. *Eligible Investments:* City funds may be invested in the following:
 - A. Any securities now or hereafter designed as legal investment for municipalities in any applicable statute of the State of Colorado;
 - B. Interest-bearing accounts or time certificates of deposit, including collateralized certificates of deposit and certificates of deposit through the Account Registry Service, of financial institutions designated as depositories for public moneys by the State of Colorado;
 - C. United States Treasury obligations for which the full faith and credit of the United States are pledged for payment of principal and interest. Such securities will include but not be limited to: Treasury bills, Treasury notes, Treasury bond and Treasury strips with maturities not exceeding five years from the date of purchase;
 - D. Obligations issued by any United States government-sponsored agency or instrumentality. Maturities may not exceed five years from the date of purchase;
 - E. Obligations issued by or on behalf of the City;
 - F. Obligations issued by or on behalf of any state of the United States, political subdivision, agency, or instrumentality thereof. At the time of

- purchase the obligation shall have an investment grade rating of not less than AA- from Standard & Poor's, Aa3 from Moody's Investors Service or AA- from Fitch Ratings Service. The ratings must be not less than above for all agencies rating the debt, no split ratings are allowed;
- G. Prime-rated bankers acceptances with a maturity not exceeding six months from the date of purchase, issued by a state or national bank which has a combined capital and surplus of at least 250 million dollars, whose deposits are insured by the FDIC and whose senior long-term debt is rated at the time of purchase at least AA- by Standard and Poor's, Aa3 by Moody's Investors Service, or AA- by Fitch Ratings Service. The ratings must be not less than above for all agencies rating the debt, no split ratings are allowed;
- H. U.S. dollar denominated corporate notes or bank debentures. Authorized corporate bonds shall be U.S. dollar denominated, and limited to corporations organized and operated within the United States with a net worth in excess of 250 million dollars. At the time of purchase the debenture or corporate note shall have an investment grade rating of not less than AA- from Standard & Poor's, Aa3 from Moody's Investors Service or AA- from Fitch Ratings Service. The ratings must be not less than above for all agencies rating the debt, no split ratings are allowed;
- I. Prime-rated commercial paper with a maturity not exceeding six months issued by U.S. corporations. At the time of purchase the paper shall be rated A1 by Standard and Poor's and P1 by Moody's Investors Service. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated at the time of purchase at least AA- by Standard and Poor's or Aa3 by Moody's Investors Service;
- J. Guaranteed investment contracts of domestically-regulated insurance companies having a claims-paying ability rating of AA- or better from Standard & Poor's at the time of purchase;
- K. Repurchase and reverse repurchase agreements. The structure of the agreements (including margin ratios and collateralization) shall be contained in the Master Repurchase Agreements. Repurchase agreements shall include but are not limited to delivery-versus-payment, tri-party and flexible repurchase agreements;
- L. Local government investment pools authorized under the laws of the State of Colorado with a rating of AAAm; and
- M. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar denominated securities.
- 2. Repurchase Agreements

- A. Before any repurchase agreements shall be executed with an authorized securities broker or dealer or financial institution, a Master Repurchase Agreement approved as to form and content by the City Attorney's Office must be signed between the City and the securities broker or dealer or financial institution.
- B. The Financial Officer will maintain a file of all Master Repurchase Agreements.
- C. In addition to the straight forward repurchase agreement, wherein the financial institution or securities broker or dealer delivers the collateral versus payment to the City's custodian for a fixed term at a fixed rate, the City may enter into other types of repurchase agreements which may include but not be limited to flexible repurchase agreements, tri-party agreements and reverse repurchase agreements.
- D. Repurchase agreements must be collateralized as provided in individually executed Master Repurchase Agreements at a minimum of 102 percent.
- E. Zero coupon instruments will not be accepted as collateral.
- F. The collateralized securities of the repurchase agreement can include but are not limited to: U.S Treasuries, Collateralized Mortgage Obligations or Agency securities.

8.7 Suitable and Authorized Investments Diversification and Liquidity

- 1. Diversification and Asset Allocation: It is the intent of the City to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, issuer or class of securities. Diversification strategies and guidelines shall be determined and revised periodically by the Financial Officer. The investments may be diversified by:
 - A. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
 - B. Limiting investment in securities that have higher credit risks;
 - C. Investing in securities with varying maturities; and
 - D. Maintaining a portion of the portfolio in readily available funds such as local government investment pools, money market funds or short term repurchase agreements to ensure that City liquidity needs are met.

The maximum investment allowable for each investment category as a percentage of the entire portfolio is as follows (excluding collateral for repurchase agreements):

CASH AND CASH EQUIVALENTS (INCLUDING LGIP)	100%
TREASURY SECURITIES	90%
GOVERNMENT-SPONSORED AGENCY SECURITIES	90%
REPURCHASE AGREEMENTS	70%
CORPORATE NOTES OR BONDS*	40%
BANK DEBENTURES*	25%
COMMERCIAL PAPER*	25%
BANKER'S ACCEPTANCES*	25%
LOCAL GOVERNMENT INVESTMENT POOLS	20%
MONEY MARKET FUNDS AND MUTUAL FUNDS	15%
CD ACCOUNT REGISTRY SERVICE (MAXIMUM 50 MILLION)	15%
CERTIFICATES OF DEPOSIT	15%
GUARANTEED INVESTMENT CONTRACTS	5%

2. Investment Maturity and Liquidity

- A. A portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or short-term repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations. The City must at all times maintain 5 percent of its operating investment portfolio in instruments maturing in 120 days or less.
- B. Reserved funds may be invested in securities exceeding 5 years if the maturities of such investments are made to coincide as closely as possible with the expected use of funds.
- C. The weighted average final maturity limitation of the total portfolio, excluding pension funds and long-term reserve funds, **will not exceed 3 years**.
- D. The City may collateralize repurchase agreements with longer-dated investments, final maturity not to exceed 30 years.

^{*} A maximum of 10 percent of the portfolio may be invested in any one provider or issuer.

8.8 Inter-agency Loan Program

- 8. Purpose: The purpose of the Inter-agency loan program is to support City services, missions, and values by making loans to outside entities such as the Urban Renewal Authority and the Downtown Development Authority while maintaining an adequate rate of return for the City.
- 2. Eligible Applicants: The following are examples of situations in which City loans to outside agencies may be appropriate:
 - H. An entity that was created wholly or in part by the City and is in a fledgling stage and does not yet have an established credit history to access the capital markets. Examples include the Urban Renewal Authority, etc.
 - H.—An entity related to the City desires to issue debt that will be repaid over a timeframe that would be unrealistic for a private lender. Examples include bonds issued by the Downtown Development Authority for less than 10 years.
 - H. Any other situation in which the Council deems it appropriate to meet the financing needs of an entity that is engaged in services that support the mission and values of the City.
- 8. Program Guidelines:
 - H. The borrowing entity must have approval from its governing body.
 - H.—The loan must be evidenced by a promissory note.
 - H. There must be a reasonable probability of repayment of the loan from an identifiable source such as TIF revenues.
 - H.—The interest rate assigned to the loan must be the higher of the Treasury Note or Municipal Bond of similar duration (3 year, 5 year, etc.), plus 0.5%, subject to the following minimum (floor).

FLOOR - Minimum Loan Rates

Term	Rate
0 - 5 years	2.75%
6 – 10 years	3.25%
11 - 15 years	3.75%

- H.—The loans must be limited to 25 years.
- H. City Council must review the request and approve the amount and terms and conditions of the loan.
- H. Loans of Utility reserves must be reviewed by either the Energy Board or Water Board in advance of City Council consideration, and must meet the following additional criteria:
 - zz. the City Council must make a formal finding that the funds will not be needed for utility purposes during the term of the loan, and that the terms and conditions of the loan represent a reasonable rate of return to the Utility; and
 - aaa. utility rates must not be increased for the purposes of funding the loan.
- 8. Limit on Funds available for Loan Program
 - H. Governmental Funds: Total loans shall not exceed 25% of the aggregate cash and investments balance of the governmental funds (i.e., General Fund and Special Revenue Funds).
 - H. Enterprise Funds: Total loans shall not exceed 5% of the aggregate cash and investments balance in the enterprise funds (i.e. Utility Funds and Golf Fund).
 - H. Operating and capital needs of the loaning funds shall not be significantly impaired by these loans.
 - H. Loans should not impact the loaning funds compliance with minimum fund balance policies, timing of intended uses, etc.

8.638.8 Reporting

- 1. Methods: The Financial Officer will prepare an investment report on a quarterly basis. In addition, a comprehensive investment report may be published on the City's website on an annual basis. All investment reports will be submitted in a timely manner to the City Manager.
- 2. *Performance Standards:* The investment portfolio will be managed in accordance with the parameters specified within this Investment Policy. The

Financial Officer will establish a benchmark yield for the City's investments equal to the average yield on the U.S. Treasury security which most closely corresponds to the portfolio's actual weighted average maturity. In order to determine the actual rate of return on any portion of the portfolio managed by an investment advisor, the Financial Officer must include all of the advisor's expenses and fees in the computation of the rate of return.

3. Marking to Market: The market value of the portfolio will be calculated at least quarterly and a statement of the market value will be included in the quarterly investment report.

8.648.9 Policy Adoption

This Investment Policy will be reviewed at least every threetwo years by the Investment Committee, City Manager and the Financial Officer and may be amended by Council as conditions warrant. The Investment Policy may be adopted by Resolution of the Council.

Definitions

- Agency: A bond, issued by a U.S. government-sponsored agency. The offerings of these agencies are backed by the U.S. government, but not guaranteed by the government since the agencies are private entities. Such agencies have been set up in order to allow certain groups of people to access low cost financing, especially students and first-time home buyers. Some prominent issuers of agency bonds are Student Loan Marketing Association (Sallie Mae), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Agency bonds are usually exempt from state and local taxes, but not federal tax.
- **Average Life:** The length of time that will pass before one-half of a debt obligation has been retired.
- **Bankers' Acceptance:** A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a money market fund investment.
- **Benchmark**: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.
- **Book Value:** The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.
- **Broker**: An individual who brings buyers and sellers together for a commission.
- <u>Cash Sale/Purchase</u>: A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.
- **Certificate of Deposit (CD)**: A time deposit with a specific maturity evidenced by a certificate.
- <u>Collateralization</u>: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.
- <u>Commercial Paper</u>: An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.
- <u>Coupon Rate:</u> The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also know as the "interest rate".
- <u>Credit Quality:</u> The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

- <u>Credit Risk:</u> The risk to an investor that an issuer will default on the payment of interest and/or principal on a security.
- <u>Current Yield (Current Return)</u>: A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.
- **Debenture**: A bond secured only by the general credit of the issuer.
- <u>Delivery versus Payment (DVP):</u> A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or to their custodian.
- **<u>Diversification</u>**: A process of investing assets among a range of security types by sector, maturity, and quality rating.
- **Duration**: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.
- **Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures deposits in member banks and thrifts up to \$100,000 (\$250,000 through 12/31/2013).
- Federal Funds: Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.
- **Federal Funds Rate**: The interest rate that banks charge each other for the use of Federal funds.
- **Government Securities:** An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.
- Green Investments: Mutual funds that are considered "ethical investments." These funds screen companies to ensure that they have sound environmental practices such as: maintaining or improving the environment, industrial relations, racial equality, community involvement, education, training, healthcare and various other environmental criteria. Negative screens include but are not limited to: alcohol, gambling, tobacco, irresponsible marketing, armaments, pornography, and animal rights.
- <u>Interest Rate Risk:</u> The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.
- Investment-grade Obligations: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

- Liquidity: An asset that can be converted easily and quickly into cash without a substantial loss of value.
- **Local Government Investment Pool (LGIP):** An investment by local governments in which their money is pooled as a method for managing local funds.
- <u>Mark-to-Market:</u> The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.
- Market Value: Current market price of a security.
- <u>Master Repurchase Agreement:</u> A written contract covering all future transactions between the parties to repurchase and reverse repurchase. Establishes each party's rights in the transaction.
- <u>Maturity:</u> The date on which payment of a financial obligation is due. The final state maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.
- Money Market Mutual Fund: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements, and federal funds).
- Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the investment company Act of 1940 and must abide by the Securities and Exchange Commission (SEC) disclosure guidelines.
- National Association of Securities Dealers (NASD): A self-regulatory organization of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.
- Net Asset Value: The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.
- **No Load Fund:** A mutual fund which does not levy a sales charge on the purchase of its shares.
- **Portfolio:** Collection of securities held by an investor.
- **Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight.
- Real Estate Investment Trust (REIT): A company that buys, develops, manages and sells real estate assets. Allows participants to invest in a professionally managed portfolio of real-estate properties. The main function is to pass profits on to investors; business activities are generally restricted to generation of property rental income.

- **Repurchase Agreement (Repo):** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
- **Reverse Repurchase Agreement:** An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement of the first party to resell the securities at a specified price to the second party on demand or at a specified date.
- Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).
- <u>Securities and Exchange Commission (SEC):</u> Agency created by Congress to protect investors in securities transactions by administering securities legislation.
- Total Return: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends Paid) + (Capital Gains) = Total Return
- <u>Treasury Bills:</u> Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year.
- <u>Treasury Bonds:</u> Long-term U.S. government debt securities with maturities of more than ten years. Currently, the longest outstanding maturity is 30 years.
- **Treasury Notes:** Intermediate U.S. government debt securities with maturities of two to ten years.
- <u>Tri-party Repurchase Agreement:</u> In a "normal repurchase" transaction there are two parties, the buyer and the seller. A tri-party repurchase agreement adds a custodian as the third party to act as an impartial entity to the repurchase transaction to administer the agreement and to relieve the buyer and seller of many administrative details.
- Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio.
- <u>Yield:</u> The current rate of return on an investment security. Generally expressed as a percentage of the security's current price.
- <u>Yield Curve:</u> A graphical representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.
- <u>Yield-to-Maturity:</u> The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.
- **Zero-Coupon Securities:** A security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

Investment Policy

Issue Date: 12/18/2012XXXX Version: 5

Issued by: Investment AdministratorCity

Council

Objective:

This policy is to establish guidelines for the efficient management of City funds and for the purchase and sale of investments. The City's principal investment objectives, in priority order are: legal conformance, safety, liquidity and return on investment. All investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Applicability:

This investment policy applies to the investment of all general and specific funds over which the City exercises financial control, including operating funds, Poudre Fire Authority, the Downtown Development Authority, <u>Poudre River Public Library District</u>, Fort Collins Leasing Corporation and the Fort Collins Urban Renewal Authority.

Authorized by:

City Council, Resolutions 90-44, 2008-121, 2009-109, 2010-065, & 2012-119. 2022-xxx.

8.1 Policy

The City of Fort Collins, Colorado (the "City") is a home rule municipality operating under the City Charter. Article V, Part III of the City Charter assigns to the Financial Officer the responsibility of investing City funds. Funds must be placed in investments authorized by the City Council ("Council"). The Financial Officer will administer the investment program to ensure effective and sound fiscal management.

It is the policy of the City to invest public funds in a manner which will <u>protect capital and meet liquidity needs while providing the highest investment return provide the highest investment return while protecting capital and meeting liquidity needs.</u>

8.2 Scope

This policy is to establish guidelines for the efficient management of City funds and for the purchase and sale of investments. This investment policy applies to the investment of all general and special funds over which the City exercises financial control, including operating funds, Poudre Fire Authority, the Downtown Development Authority, Poudre River Public Library District, Fort Collins Leasing Corporation and the Fort Collins Urban Renewal Authority. For purposes of this policy, operating funds include:

General Fund;
Special Revenue Funds;
Debt Services Funds (unless prohibited by bond ordinance);
Capital Projects Funds;
Enterprise Funds;
Internal Service Funds;
Trust and Agency Funds; and
Any newly created Fund, unless exempted by Council.

Unless specifically provided for in the bond ordinance, all bond proceeds, bond reserve funds and pledged revenues must be invested in accordance with the operating funds guidelines set forth in this Investment Policy. Guidelines for investing the funds of the City's defined benefit plan shall be included in the Investment Policy for the General Employees' Retirement Plan, which is monitored and approved by the General Employees' Retirement Committee.

8.3 Investment Objectives

The City's principal investment objectives, in priority order, are: legal conformance, safety, liquidity, and return on investment. All investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

- 1. Legal conformance: The investment portfolio will conform to all legal and contractual requirements.
- 2. Safety: Safety of investment principal and the preservation of capital are primary objectives of the investment program. When making investment decisions, the Financial Officer will seek to ensure the preservation of capital in the overall portfolio by mitigating credit risk and interest rate risk.
 - A. *Credit Risk*: The Financial Officer will minimize the risk of loss of principal and/or interest due to the failure of the security issuer or backer by:
 - a. Limiting investments to the safest types of securities.
 - b. Pre-qualifying financial institutions, securities brokers and dealers, and advisors.

c. Diversifying the investment portfolio to reduce exposure to any one security type or issuer.

Interest Rate Risk: The Financial Officer will minimize the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by:

- a. Whenever possible, holding investments to their stated maturity dates
- b. Investing a portion of the operating funds in shorter-term securities, money market mutual funds, or local government investment pools.
- 3. Liquidity: The investment portfolio must be sufficiently liquid so as to meet all reasonably anticipated operating cash flow needs. This is accomplished by structuring the portfolio so that securities mature to meet cash requirements for ongoing operations. Investments shall be managed to avoid, but not prohibit, sale of securities before their maturities to meet foreseeable cash flow requirements. Since all possible cash needs cannot be anticipated, the portfolio must consist largely of securities with active secondary or resale markets.
- 4. Return on Investment: The investment portfolio will be designed with the objective of maximizing the rate of return on investment while maintaining acceptable risk levels and ensuring adequate liquidity. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investment pooling may be used to maximize the City's investment income. Interest income, from pooling, will be distributed to the participating funds in proportion to each fund's level of contribution.

The Financial Officer will determine whether a security will be sold prior to maturity. The following are examples of when a security might be sold:

- a. A security with a declining credit rating may be sold early to minimize loss of principal;
- b. A security swap would improve the quality, yield, return, or maturity distribution of the portfolio;
- c. Liquidity needs of the portfolio require that the security be sold; or
- d. The Financial Officer will obtain the best rate of return on investments by taking advantage of market volatility and recognizing gains on a portion of the portfolio.

8.4 Standards of Care

1. Prudence: The City has a fiduciary responsibility to protect the assets of the City and to invest funds appropriately. The standard of care to be used by City officials is the "prudent person" rule as specified by CRS 15-1-304, which reads:

"Standard for investments: In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing property for the benefit of others, fiduciaries shall be required to have in mind the responsibilities which are attached to such offices and the size, nature, and needs of the estates entrusted to their care and shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital. Within the limitations of the foregoing standard, fiduciaries are authorized to acquire and retain every kind of property, real, personal, and mixed, and every kind of investment, specifically including, but not by way of limitation, bonds, debentures, other corporate obligations, stocks, preferred or common, securities of any open-end or closed-end management type investment company or investment trust, and participations in common trust funds, which men of prudence, discretion, and intelligence would acquire or retain for the account of another."

The Financial Officer and designees, acting within the guidelines of this investment policy and written procedures, the City Charter and Code, all applicable state and federal laws and after exercising due diligence, will not be held personally liable and will be relieved or personal responsibility for an individual security's credit risk or market price changes, or for losses incurred as a result of specific investment transactions or strategies. (CRS 24-75-601.4, et seq.)

2. Ethics and Conflicts of Interest: City officers and employees involved in the investment process will 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 must disclose any material interests in financial institutions with which they conduct business. They must further disclose any personal financial and investment positions that could be related to the performance of the City's investment portfolio. In addition they must adhere to the rules of conflicts of interest as stated in Art. IV, Section 9(b) of the Charter of the City of Fort Collins, Colorado.

3. Delegation of Authority: The City Charter assigns the responsibility for the collection and investment of all city funds to the Financial Officer, subject to direction from Council by ordinance or resolution. The Financial Officer, subject to City Manager approval, may appoint other members of the Finance Department to assist in the investment function.

Administrative Procedures

- a. The Financial Officer is responsible for all investment decisions and activities, and must regulate the activities of subordinate employees for the operation of the City's investment program consistent with this investment policy.
- b. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Financial Officer.

A. Authorized Designees

- a. The Financial Officer will maintain a list of individuals and institutions that are authorized to transfer, purchase, sell and wire securities or funds on behalf of the City.
- b. This list will be provided to the securities broker or dealer or financial institution prior to the City conducting any investment transactions with the institution.

B. Investment Advisors

- a. The Financial Officer has the discretion to appoint one or more investment advisors, registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940, to assist in the management of all or a portion of the City's investment portfolio.
- b. All investments made through such investment advisors shall be within the guidelines of this Investment Policy.
- 4. Investment Committee: The Investment Committee consists of the Financial Officer and at least 2 other employees of the City that are knowledgeable in the area of governmental investments. The Investment Committee, at the discretion of the Financial Officer, may also include up to 2 private sector investment or banking professionals. The purpose of the Investment Committee shall be to provide advice to the Financial Officer regarding the operation of the investment program.

8.5 Safekeeping and Custody

- 1. Authorized Securities Brokers and Dealers and Financial institutions
 - A. The Financial Officer will maintain a list of financial institutions authorized to provide investment services. The Financial Officer will also maintain a list of approved securities brokers and dealers. This list may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1.
 - B. All financial institutions and securities brokers and dealers who wish to provide investment services to the City must supply the following (as appropriate):
 - a. Current audited financial statements;
 - b. Completed securities broker and dealer questionnaire;
 - c. Proof of National Association of Securities Dealers certification and registration in the State of Colorado; and
 - d. Certification of their review, understanding and agreement to comply with the City's Investment Policy.
 - C. If a financial institution or securities broker or dealer wishes to enter into a repurchase agreement with the city, the institution must sign a Master Repurchase Agreement approved as to form and content by the City Attorney's Office.
 - D. The Financial Officer must conduct an annual review of the financial condition of authorized financial institutions and securities brokers and dealers.
 - E. Investment transactions must be executed with an authorized financial institution or securities broker or dealer except in the following circumstances:
 - a. Commercial paper, banker acceptances and guaranteed investment contracts may be purchased and sold directly from the issuer;
 - b. Mutual funds and money market funds may be purchased, sold and held directly with the funds;
 - c. Investments in local government investment pools may be transacted directly with the pool; and
 - d. Bond refunding and lease escrow agreements will be executed as provided in the bond and lease documents.
 - F. The Financial Officer will establish a safekeeping agreement with an approved financial institution to act as a third party custodian. Investment securities will be held for the City by the custodian. When applicable, the Financial Officer shall establish a separate securities lending agreement with the custodian bank. The selection of the City's primary depository

- and primary custodian will be made through the City's competitive Request for Proposals process.
- 2. *Delivery versus Payment*: All trades will be executed by delivery versus payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by the City's third-party custodian as evidenced by safekeeping receipts.
- 3. *Internal Controls*: The Financial Officer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the city are protected from loss, theft or misuse.

8.6 Suitable and Authorized Investments

As a home rule city, the City may adopt a list of acceptable investment instruments differing from those outlined in CRS 24-75-601.1. Pursuant to Article V of the City's Charter the Council has adopted the following Ordinances and Resolutions establishing the framework under which the Financial Officer must conduct his duties: Ordinance 90, 1993; Ordinance 108, 1988, Resolution 85-134; and Resolution 82-70. Council may adopt additional Ordinances or Resolutions that require modification of these investment tools.

- 1. *Eligible Investments:* City funds may be invested in the following:
 - A. Any securities now or hereafter designed as legal investment for municipalities in any applicable statute of the State of Colorado;
 - B. Interest-bearing accounts or time certificates of deposit, including collateralized certificates of deposit and certificates of deposit through the Account Registry Service, of financial institutions designated as depositories for public moneys by the State of Colorado;
 - C. United States Treasury obligations for which the full faith and credit of the United States are pledged for payment of principal and interest. Such securities will include but not be limited to: Treasury bills, Treasury notes, Treasury bond and Treasury strips with maturities not exceeding five years from the date of purchase;
 - D. Obligations issued by any United States government-sponsored agency or instrumentality. Maturities may not exceed five years from the date of purchase;
 - E. Obligations issued by or on behalf of the City;
 - F. Obligations issued by or on behalf of any state of the United States, political subdivision, agency, or instrumentality thereof. At the time of

- purchase the obligation shall have an investment grade rating of not less than AA- from Standard & Poor's, Aa3 from Moody's Investors Service or AA- from Fitch Ratings Service. The ratings must be not less than above for all agencies rating the debt, no split ratings are allowed;
- G. Prime-rated bankers acceptances with a maturity not exceeding six months from the date of purchase, issued by a state or national bank which has a combined capital and surplus of at least 250 million dollars, whose deposits are insured by the FDIC and whose senior long-term debt is rated at the time of purchase at least AA- by Standard and Poor's, Aa3 by Moody's Investors Service, or AA- by Fitch Ratings Service. The ratings must be not less than above for all agencies rating the debt, no split ratings are allowed;
- H. U.S. dollar denominated corporate notes or bank debentures. Authorized corporate bonds shall be U.S. dollar denominated, and limited to corporations organized and operated within the United States with a net worth in excess of 250 million dollars. At the time of purchase the debenture or corporate note shall have an investment grade rating of not less than AA- from Standard & Poor's, Aa3 from Moody's Investors Service or AA- from Fitch Ratings Service. The ratings must be not less than above for all agencies rating the debt, no split ratings are allowed;
- I. Prime-rated commercial paper with a maturity not exceeding six months issued by U.S. corporations. At the time of purchase the paper shall be rated A1 by Standard and Poor's and P1 by Moody's Investors Service. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated at the time of purchase at least AA- by Standard and Poor's or Aa3 by Moody's Investors Service;
- J. Guaranteed investment contracts of domestically-regulated insurance companies having a claims-paying ability rating of AA- or better from Standard & Poor's at the time of purchase;
- K. Repurchase and reverse repurchase agreements. The structure of the agreements (including margin ratios and collateralization) shall be contained in the Master Repurchase Agreements. Repurchase agreements shall include but are not limited to delivery-versus-payment, tri-party and flexible repurchase agreements;
- L. Local government investment pools authorized under the laws of the State of Colorado with a rating of AAAm; and
- M. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar denominated securities.
- 2. Repurchase Agreements

- A. Before any repurchase agreements shall be executed with an authorized securities broker or dealer or financial institution, a Master Repurchase Agreement approved as to form and content by the City Attorney's Office must be signed between the City and the securities broker or dealer or financial institution.
- B. The Financial Officer will maintain a file of all Master Repurchase Agreements.
- C. In addition to the straight forward repurchase agreement, wherein the financial institution or securities broker or dealer delivers the collateral versus payment to the City's custodian for a fixed term at a fixed rate, the City may enter into other types of repurchase agreements which may include but not be limited to flexible repurchase agreements, tri-party agreements and reverse repurchase agreements.
- D. Repurchase agreements must be collateralized as provided in individually executed Master Repurchase Agreements at a minimum of 102 percent.
- E. Zero coupon instruments will not be accepted as collateral.
- F. The collateralized securities of the repurchase agreement can include but are not limited to: U.S Treasuries, Collateralized Mortgage Obligations or Agency securities.

8.7 Suitable and Authorized Investments Diversification and Liquidity

- 1. Diversification and Asset Allocation: It is the intent of the City to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, issuer or class of securities. Diversification strategies and guidelines shall be determined and revised periodically by the Financial Officer. The investments may be diversified by:
 - A. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
 - B. Limiting investment in securities that have higher credit risks;
 - C. Investing in securities with varying maturities; and
 - D. Maintaining a portion of the portfolio in readily available funds such as local government investment pools, money market funds or short term repurchase agreements to ensure that City liquidity needs are met.

The maximum investment allowable for each investment category as a percentage of the entire portfolio is as follows (excluding collateral for repurchase agreements):

CASH AND CASH EQUIVALENTS (INCLUDING LGIP)	100%
TREASURY SECURITIES	90%
GOVERNMENT-SPONSORED AGENCY SECURITIES	90%
REPURCHASE AGREEMENTS	70%
CORPORATE NOTES OR BONDS*	40%
BANK DEBENTURES*	25%
COMMERCIAL PAPER*	25%
BANKER'S ACCEPTANCES*	25%
LOCAL GOVERNMENT INVESTMENT POOLS	20%
MONEY MARKET FUNDS AND MUTUAL FUNDS	15%
CD ACCOUNT REGISTRY SERVICE (MAXIMUM 50 MILLION)	15%
CERTIFICATES OF DEPOSIT	15%
GUARANTEED INVESTMENT CONTRACTS	5%

2. Investment Maturity and Liquidity

- A. A portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or short-term repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations. The City must at all times maintain 5 percent of its operating investment portfolio in instruments maturing in 120 days or less.
- B. Reserved funds may be invested in securities exceeding 5 years if the maturities of such investments are made to coincide as closely as possible with the expected use of funds.
- C. The weighted average final maturity limitation of the total portfolio, excluding pension funds and long-term reserve funds, **will not exceed 3 years**.
- D. The City may collateralize repurchase agreements with longer-dated investments, final maturity not to exceed 30 years.

^{*} A maximum of 10 percent of the portfolio may be invested in any one provider or issuer.

8.8 Inter-agency Loan Program

- 8. Purpose: The purpose of the Inter-agency loan program is to support City services, missions, and values by making loans to outside entities such as the Urban Renewal Authority and the Downtown Development Authority while maintaining an adequate rate of return for the City.
- 2. Eligible Applicants: The following are examples of situations in which City loans to outside agencies may be appropriate:
 - H. An entity that was created wholly or in part by the City and is in a fledgling stage and does not yet have an established credit history to access the capital markets. Examples include the Urban Renewal Authority, etc.
 - H.—An entity related to the City desires to issue debt that will be repaid over a timeframe that would be unrealistic for a private lender. Examples include bonds issued by the Downtown Development Authority for less than 10 years.
 - H. Any other situation in which the Council deems it appropriate to meet the financing needs of an entity that is engaged in services that support the mission and values of the City.
- 8. Program Guidelines:
 - H. The borrowing entity must have approval from its governing body.
 - H.—The loan must be evidenced by a promissory note.
 - H. There must be a reasonable probability of repayment of the loan from an identifiable source such as TIF revenues.
 - H.—The interest rate assigned to the loan must be the higher of the Treasury Note or Municipal Bond of similar duration (3 year, 5 year, etc.), plus 0.5%, subject to the following minimum (floor).

FLOOR - Minimum Loan Rates

Term	Rate
0 5 years	2.75%
6 – 10 years	3.25%
11 – 15 years	3.75%

- H.—The loans must be limited to 25 years.
- H. City Council must review the request and approve the amount and terms and conditions of the loan.
- H. Loans of Utility reserves must be reviewed by either the Energy Board or Water Board in advance of City Council consideration, and must meet the following additional criteria:
 - zz. the City Council must make a formal finding that the funds will not be needed for utility purposes during the term of the loan, and that the terms and conditions of the loan represent a reasonable rate of return to the Utility; and
 - aaa. utility rates must not be increased for the purposes of funding the loan.
- 8. Limit on Funds available for Loan Program
 - H. Governmental Funds: Total loans shall not exceed 25% of the aggregate cash and investments balance of the governmental funds (i.e., General Fund and Special Revenue Funds).
 - H. Enterprise Funds: Total loans shall not exceed 5% of the aggregate cash and investments balance in the enterprise funds (i.e. Utility Funds and Golf Fund).
 - H. Operating and capital needs of the loaning funds shall not be significantly impaired by these loans.
 - H. Loans should not impact the loaning funds compliance with minimum fund balance policies, timing of intended uses, etc.

8.638.8 Reporting

- 1. Methods: The Financial Officer will prepare an investment report on a quarterly basis. In addition, a comprehensive investment report may be published on the City's website on an annual basis. All investment reports will be submitted in a timely manner to the City Manager.
- 2. *Performance Standards:* The investment portfolio will be managed in accordance with the parameters specified within this Investment Policy. The

Financial Officer will establish a benchmark yield for the City's investments equal to the average yield on the U.S. Treasury security which most closely corresponds to the portfolio's actual weighted average maturity. In order to determine the actual rate of return on any portion of the portfolio managed by an investment advisor, the Financial Officer must include all of the advisor's expenses and fees in the computation of the rate of return.

3. Marking to Market: The market value of the portfolio will be calculated at least quarterly and a statement of the market value will be included in the quarterly investment report.

8.648.9 Policy Adoption

This Investment Policy will be reviewed at least every threetwo years by the Investment Committee, City Manager and the Financial Officer and may be amended by Council as conditions warrant. The Investment Policy may be adopted by Resolution of the Council.

Definitions

- Agency: A bond, issued by a U.S. government-sponsored agency. The offerings of these agencies are backed by the U.S. government, but not guaranteed by the government since the agencies are private entities. Such agencies have been set up in order to allow certain groups of people to access low cost financing, especially students and first-time home buyers. Some prominent issuers of agency bonds are Student Loan Marketing Association (Sallie Mae), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Agency bonds are usually exempt from state and local taxes, but not federal tax.
- **Average Life:** The length of time that will pass before one-half of a debt obligation has been retired.
- **Bankers' Acceptance:** A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a money market fund investment.
- **Benchmark**: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.
- **Book Value**: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.
- **Broker**: An individual who brings buyers and sellers together for a commission.
- <u>Cash Sale/Purchase</u>: A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.
- **Certificate of Deposit (CD)**: A time deposit with a specific maturity evidenced by a certificate.
- <u>Collateralization</u>: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.
- <u>Commercial Paper</u>: An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.
- <u>Coupon Rate:</u> The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also know as the "interest rate".
- <u>Credit Quality:</u> The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

- <u>Credit Risk:</u> The risk to an investor that an issuer will default on the payment of interest and/or principal on a security.
- <u>Current Yield (Current Return)</u>: A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.
- **Debenture**: A bond secured only by the general credit of the issuer.
- <u>Delivery versus Payment (DVP):</u> A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or to their custodian.
- **<u>Diversification</u>**: A process of investing assets among a range of security types by sector, maturity, and quality rating.
- **Duration**: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.
- **Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures deposits in member banks and thrifts up to \$100,000 (\$250,000 through 12/31/2013).
- Federal Funds: Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.
- **Federal Funds Rate**: The interest rate that banks charge each other for the use of Federal funds.
- **Government Securities:** An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.
- Green Investments: Mutual funds that are considered "ethical investments." These funds screen companies to ensure that they have sound environmental practices such as: maintaining or improving the environment, industrial relations, racial equality, community involvement, education, training, healthcare and various other environmental criteria. Negative screens include but are not limited to: alcohol, gambling, tobacco, irresponsible marketing, armaments, pornography, and animal rights.
- <u>Interest Rate Risk:</u> The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.
- <u>Investment-grade Obligations</u>: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

- Liquidity: An asset that can be converted easily and quickly into cash without a substantial loss of value.
- **Local Government Investment Pool (LGIP):** An investment by local governments in which their money is pooled as a method for managing local funds.
- <u>Mark-to-Market:</u> The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.
- Market Value: Current market price of a security.
- <u>Master Repurchase Agreement:</u> A written contract covering all future transactions between the parties to repurchase and reverse repurchase. Establishes each party's rights in the transaction.
- <u>Maturity:</u> The date on which payment of a financial obligation is due. The final state maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.
- <u>Money Market Mutual Fund:</u> Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements, and federal funds).
- Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the investment company Act of 1940 and must abide by the Securities and Exchange Commission (SEC) disclosure guidelines.
- National Association of Securities Dealers (NASD): A self-regulatory organization of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.
- Net Asset Value: The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.
- **No Load Fund:** A mutual fund which does not levy a sales charge on the purchase of its shares.
- **Portfolio:** Collection of securities held by an investor.
- **Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight.
- Real Estate Investment Trust (REIT): A company that buys, develops, manages and sells real estate assets. Allows participants to invest in a professionally managed portfolio of real-estate properties. The main function is to pass profits on to investors; business activities are generally restricted to generation of property rental income.

- **Repurchase Agreement (Repo):** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
- **Reverse Repurchase Agreement:** An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement of the first party to resell the securities at a specified price to the second party on demand or at a specified date.
- Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).
- <u>Securities and Exchange Commission (SEC):</u> Agency created by Congress to protect investors in securities transactions by administering securities legislation.
- Total Return: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends Paid) + (Capital Gains) = Total Return
- <u>Treasury Bills:</u> Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year.
- <u>Treasury Bonds:</u> Long-term U.S. government debt securities with maturities of more than ten years. Currently, the longest outstanding maturity is 30 years.
- **Treasury Notes:** *Intermediate U.S. government debt securities with maturities of two to ten years.*
- <u>Tri-party Repurchase Agreement:</u> In a "normal repurchase" transaction there are two parties, the buyer and the seller. A tri-party repurchase agreement adds a custodian as the third party to act as an impartial entity to the repurchase transaction to administer the agreement and to relieve the buyer and seller of many administrative details.
- Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio.
- <u>Yield:</u> The current rate of return on an investment security. Generally expressed as a percentage of the security's current price.
- Yield Curve: A graphical representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.
- <u>Yield-to-Maturity:</u> The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.
- **Zero-Coupon Securities:** A security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

Staff: Ginny Sawyer, Sr. Project Manager

Jennifer Poznanovic, Sr. Revenue Manager

Date: January 6, 2022

SUBJECT FOR DISCUSSION

Consideration of Sustainable Funding Sources

EXECUTIVE SUMMARY

The purpose of this item is to begin solidifying specific identified revenue needs and exploring multiple potential funding options.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

- 1. What guestions does Council Finance Committee have on the identified revenue needs?
- 2. What questions does Council Finance Committee have on potential revenue sources?
- 3. Does Council Finance Committee agree with staff proposed next steps?

BACKGROUND/DISCUSSION

Through masterplan processes, staff has identified three clear funding needs in the areas of parks and recreation, transit, and housing. Annual shortfalls range from eight to twelve million per area. Parks and recreation and transit have specific operational plans and a focus on asset management while housing continues to be a top Council and community priority.

Staff is working to develop a full workplan that will include on-going Council Finance meetings, work sessions with the full Council, community engagement, and ultimate implementation of means and methods to address revenue needs.

The following bullets highlight workplan considerations:

- Clearly define and articulate revenue needs and level of service considerations
- Thoroughly research funding options including impacts and the context of existing and potential new tax measures (local and regionally)
- Recognize and work within the desire to keep overall tax burden as low as possible
- Currently, assuming dedicated tax renewals will target November 2024 election

Identified Revenue Needs

The revenue needs identified through plans and highlighted below reflects amounts needed to achieve all plan goals. Specific priorities and service level trade-offs can be further identified at future meetings.

Parks and Recreation

Parks and Recreation Funding - Current State

Existing Funding (\$M)	Operations & Maintenance	Life Cycle Replacement	Minor Refresh
Parks (Majority General Fund)	\$12.3	\$0.5	
Recreation (Program			
Revenue & General Fund)	\$11.3		
Total	\$23.6	\$0.5	\$0.0

Estimation of Funding Need – What is the gap?

The master plan estimates the total annual need for parks and recreation is \$36.2 million, with the gap between current funding levels and the annual funding of \$12.1 million. The gap for parks is primarily in Life Cycle Replacement and Minor Refresh, while Recreation needs are primarily in Minor Refresh.

Needed Funding (\$M)	Operations & Maintenance	Life Cycle Replacement	Minor Refresh
Parks	\$13.3	\$6.0	\$2.7
Mini Parks			\$0.2
Plazas		\$0.1	
Urban Parks			
Neighborhood Parks		\$0.5	\$2.0
Schoolside Parks		\$1.0	\$0.5
Community Parks		\$3.9	
Special Use Parks		\$0.5	
Recreation	\$11.3	\$0.1	\$2.2
Planting Refresh			\$0.6
Total	\$24.6	\$6.1	\$5.5

Funding Gap (\$M)	Operations & Maintenance	Life Cycle Replacement	Minor Refresh
Parks	\$1.0	\$5.5	\$2.7
Recreation	\$0.0	\$0.1	\$2.2
Planting Refresh			\$0.6
Total	\$1.0	\$5.6	\$5.5

What would the revenue be used for?

Expanding the lifecycle replacement program to keep pace with needs to provide equitable parks experiences. This would be accomplished by performing critical maintenance and repair of existing assets when regular maintenance can no longer keep them in a good state of repair, including to address safety and ADA improvements.

Investing in Minor Refresh to expand the usability of existing parks and ensure existing recreation facilities meet service standards and respond to changing user needs. This would be accomplished by strategic changes to existing assets, such as adding features such as play fields, shade structures, adult fitness equipment, covered picnic shelters, and trail loops to extend recreation opportunities.

Transit

Transit Budget - Current State

Amount: The 2019 operational budget for Transit was approx. \$17.5M.

Operational Budget Funding Sources	Est. Amount
Federal	~ \$4.3M
State	~ \$200K
CSU Contract	~ \$2.1M
Local Funding	~ \$10.9M
Total	\$17.5M

- Local match funding sources include: the fares/fees, investment earnings, other intergovernmental reimbursements & other smaller miscellaneous revenue sources.
- Estimates for future operation needs assume a 25% federal match.

Capital Projects

- Amounts for capital projects vary widely year over year
- The minimum federal match is 80/20 (grant/local)
- Recent federal communication has indicated that future successful grant applicants will have higher local match amounts
- Estimates for future capital needs assume a 50% federal match
- Total anticipated expenditure for the TMP is \$270M \$308M. At 50% grant match, this results in an additional local match need of \$135M \$154M or \$7.7M annually over twenty years.

Estimation of Funding Need – What is the gap?

Staff estimates the gap between current funding levels and the annual funding need to average \$7.7M annually in capital project needs over the next twenty years. At the conclusion of twenty years, an additional annual need of \$9.8M for operations and maintenance is anticipated. Assuming an average need of approximately \$9.8M over the next twenty years, allows for the anticipated total capital expenditure of approximately \$154M in local funds and a corresponding incremental increase to the additional operational need of \$9.8M annually.

Туре	Assumed federal support	Timeline	Est. local new	Туре
			funding need	
Capital	50%	Over 20 years	\$7.7 million	One-time
			annually	Investment
Operational	25%	Slow build to 20-	\$9.8 million	Ongoing
		year total	annually in 20 years	investment

What would the revenue be used for?

Capital Projects & Fleet Improvements to construct 3-4 BRT routes, build electrification charging infrastructure, purchase electric busses, and build mobility hubs.

Operations & Maintenance Expansion to provide double the annual service hours, operate high frequency routes, & operate new routes such as the 3-4 additional BRT routes.

Housing

Affordable Housing Funding - Current State

Amount: \$1.5-3 million in funding annually. 2022 Revenue sources and amounts:

Source	Est. Amount
Affordable Housing Fund (AHF)	\$1,000,000
HOME (Federal)	\$725,000
CDBG (Federal)	\$750,000
Affordable Housing Capital Fund (AHCF/CCIP)	\$500,000
Total	\$2,975,000

- Typically one cycle per year to allocate AHF, CDBG, HOME dollars. A second round is possible if 500k or more remains un-allocated after the first round. This is not typical often the number and amount of funding requests exceed the available funding.
- AHCF/CCIP used for fee relief and direct subsidy on an as-needed basis (e.g. Oak 140, Cadence)
- Funding history for AHF, CDBG and HOME: https://www.fcgov.com/socialsustainability/funding

Funding guidelines:

- Leverage funding alongside resources from tax credits, private investment, etc. Leverage ratio is often 1:10 or better (i.e. 1 City funding dollar to every 10 outside dollars)
- Focus direct investment on the lowest income levels, higher priority to projects serving lower AMI (for example, permanent supportive housing for residents making 0-30% AMI)

Estimation of Funding Need – What is the gap?

Staff estimates the gap between current funding levels and the annual funding need to be \$8-9.5 million annually. Accounting for the expiration of the CCIP tax in 2025 (\$500k) increases this gap to **\$8.5-10** million annually in additional revenue needed, or **\$10-11.5** million total annual funding.

Current	Expected affordable housing	Gap (282 units per	Est. funding need
funding levels	production with current funding	year – expected	(gap x \$39,000)
(low/high)	(current funding/\$39,000)	production)	
\$1.5 million	38 units	244	\$9.5 million
\$3 million	77 units	205	\$8 million

The City is also about 700 units behind in affordable housing production from 2015-2020. This calculates to *approximately \$27 million in deferred funding*.

What would the revenue be used for?

Expanding the current competitive process to support projects seeking to: acquire land, develop housing, preserve existing housing, support residents (tenants/owners).

Expanding or initiating additional City-led efforts such as: acquiring land bank properties, extending affordability restrictions, expanding eligibility for fee credits, freezing development fees for qualifying projects, creating incentive programs (energy efficiency, affordable housing preservation, etc.), other innovative approaches (middle income, mixed income, etc.).

Potential Revenue Options

Numerous potential revenue sources are listed below. Identifying long-term revenue for identified needs will likely involve numerous and diverse funding mechanisms. Staff has started the work of estimating revenue projections and identifying community impacts and we anticipate many more questions and research as options are vetted both individually and in the context of others.

	Option	Annual Revenue Projection	Voter approval	Stakeholder Impact
1	Special districts (Library District Mill Levy 3.0)	\$11M+	Yes	Business, Resident
2	Property tax (Library District Mill Levy 3.0)	\$11M+	Yes	Business, Resident
3	¼ cent sales tax base rate increase	\$9M+	Yes	Resident, Visitor
4	¼ cent dedicated sales tax	\$9M+	Yes	Resident, Visitor
5	Repurpose ¼ cent dedicated tax	\$9M+	Yes	Resident, Visitor
6	Business occupational privilege tax (\$4 monthly/\$48 annually)	\$4M+	Yes	Business
7	Fees (parks, transit) (\$5 monthly fee/ \$60 annually)	\$4M	No	Resident
8	Excise tax on specific goods	\$4M	Yes	Resident, Visitor
9	Reconfigure or establish new capital expansion fees (Affordable housing)	\$2M	No	Business
10	Tax on services (i.e. haircuts, vet service, financial services, etc.)	TBD	Yes	Business, Visitor
11	Carbon Tax	\$2M	Yes	Business

Per City Code, Capital Expansion Fees (CEFs) are for the purpose of funding capital improvements required to address the impact of growth as the city's population increases. They are intended to ensure that new growth and development in the city bear a proportionate share of the capital expenditures necessary to provide community parkland, police, fire protection, general government, neighborhood parkland and transportation capital improvements to address the impacts of growth.

Pursuing changes to CEFs will require work with the City Attorney's Office. In addition, the imposition and calculation of CEFs, as impact fees, are legally constrained by certain constitutional and statutory requirements and limitations.

Timeline

Below is the current timeline for Council Meetings along with potential election opportunities:



Proposed Next Steps

The staff project team will meet on a regular schedule throughout 2022. Council touchpoints will include regular updates at Council Finance and a work session in quarter two of 2022.

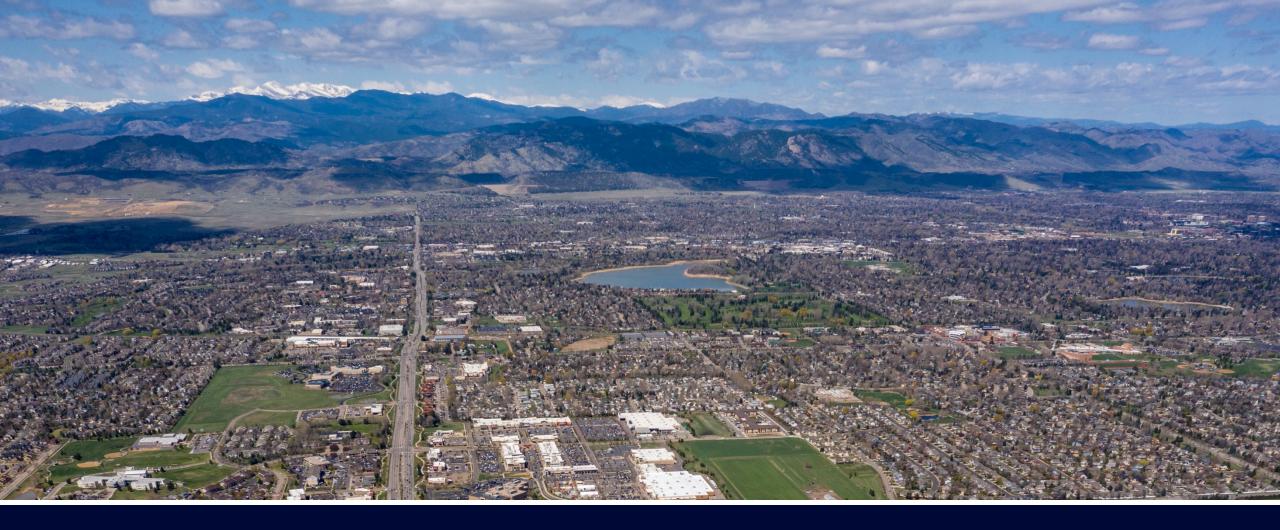
Initial timeline management considerations:

If any measure on November 2022 ballot:

- o Last day to refer to ballot September 6
- o January-July 2022: option development and public engagement
- If any measure on November 2023 ballot:
 - Last day to refer to ballot September 5
 - o January-July 2023: option development and public engagement
- If 2024 dedicated tax renewal:
 - Last day to refer to ballot Sept 6
 - o January-July 2024: option development and public engagement

ATTACHMENTS (numbered Attachment 1, 2, 3,...)

- Consideration of New Revenue Sources (PPT)
 Additional Parks and Recreation, Transit and Housing detail
- 3. Additional Climate detail





Consideration of Sustainable Funding Sources

Travis Storin, Ginny Sawyer & Jennifer Poznanovic

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Begin solidifying specific identified revenue needs and exploring multiple potential funding options.

- 1. What questions does Council Finance Committee have on the identified revenue needs?
- 2. What questions does Council Finance Committee have on potential revenue sources?
- 3. Does Council Finance Committee agree with staff proposed next steps?



Revenue needs identified through master plans:

PARKS & RECREATION - \$12M annual shortfall (Parks & Recreation Master Plan)

TRANSIT - \$8M to \$10M annual shortfall (Transit Master Plan)

HOUSING - \$8M to \$9.5M annual shortfall (Housing Strategic Plan)



This level of funding achieves the vision of providing equitable access to parks and recreation experiences, by keeping pace with lifecycle and minor refresh needs

Funding Gap (\$M)	Operations & Maintenance	Life Cycle Replacement	Minor Refresh
Parks	\$1.0	\$5.5	\$2.7
Recreation	\$0.0	\$0.1	\$2.2
Planting Refresh			\$0.6
Total	\$1.0	\$5.6	\$5.5

Operations and Maintenance - The daily tasks needed to keep parks and recreation facilities running and minor repairs to capital assets to keep them in a good state of repair

Life Cycle Replacement (Capital) - Critical maintenance or repair of existing assets

- Typically require one-time funding and are not likely to increase annual operations and maintenance costs
- Can reduce annual operations and maintenance costs

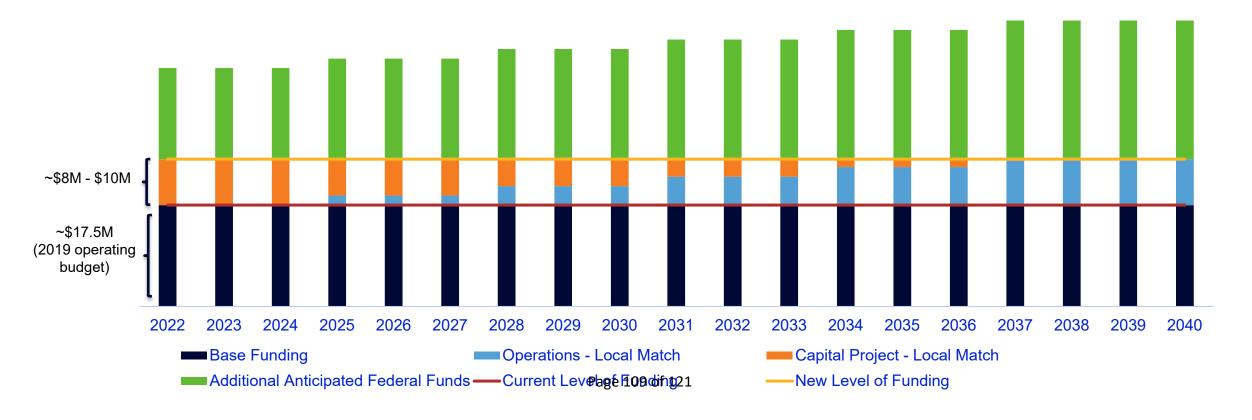
Minor Refresh (Capital) - Minor refreshes include strategic changes to existing parks or recreation facilities

- May include a refresh of plantings or other design elements
- Typically require one-time funding and may trigger increases in annual operations and maintenance costs



This level of funding achieves the vision and policies for expanding the transit system according to current and future demand

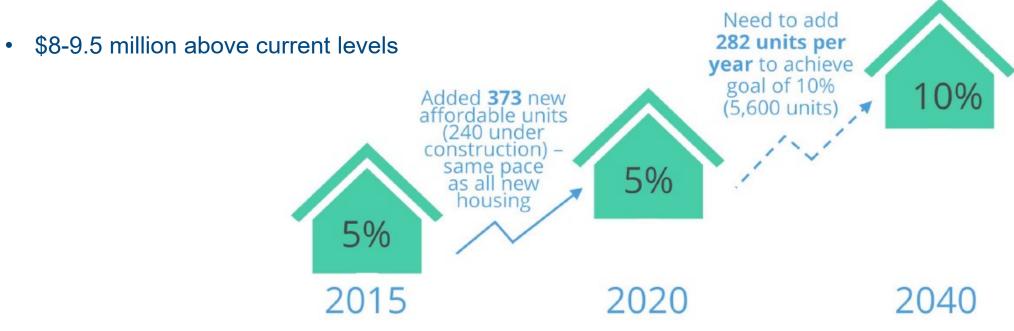
- The area between the lines represents new funds needed to build & operate the TMP
- A significant amount of federal grant funding is anticipated: current assumed matches range from 80/20 to 50/50 (grant/local)
- Capital projects will be the initial focus with service levels increasing as capital projects are completed
- Some service level increase is anticipated due to population growth, higher frequency routes, and route extension





City goal to achieve 10% of housing stock as affordable by 2040 (Currently at 5%)

- City provides between \$1.5 million to \$3 million in direct subsidy funding annually
- Assume \$39,000 investment yields one unit of affordable housing, the estimated annual funding need for affordable housing is \$10-11.5 million per year



Source: City of Fort Collins Housing Strategic Plan and Root Policy Research.

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	Option	Annual Revenue Projection	Voter approval	Stakeholder Impact
1	Special districts (Library District Mill Levy 3.0)	\$11M+	Yes	Business, Resident
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11	Carbon Tax	\$2M	Yes	Business



Project Team

- Continue project team meetings on regular basis
 - Develop project and engagement plan
 - Further research into impacts, timing, and questions
- Standing item on Council Finance Agenda
 - Review project team work and findings
 - Bi-monthly agenda item
- Council Work Session in Q2 2022
 - April 12th

Timing Considerations

November 2022 ballot:

- last day to refer September 6th

November 2023 ballot:

last day to refer September 5th

November 2024 ballot:

-last day to refer September 6th



Begin solidifying specific identified revenue needs and exploring multiple potential funding options.

- 1. What questions does Council Finance Committee have on the identified revenue needs?
- 2. What questions does Council Finance Committee have on potential revenue sources?
- 3. Does Council Finance Committee agree with staff proposed next steps?



Additional Information on Identified Revenue Needs

The revenue needs identified through plans and highlighted below reflects amounts needed to achieve all plan goals. Specific priorities and service level trade-offs can be further identified at future meetings.

Parks and Recreation

The Parks and Recreation Master Plan was adopted on January 19, 2021, and incorporated a year of extensive staff, community, and stakeholder participation. The funding section of the plan features a primary goal to enhance the financial sustainability of Parks and Recreation. While existing operations and maintenance budgets are close to what is needed, there are no dedicated funding sources for capital investment. The funding gap identified in the plan is captured in the table below:

Funding Gap (\$M)	Operations & Maintenance	Life Cycle Replacement	Minor Refresh
Parks	\$1.0	\$5.5	\$2.7
Recreation	\$0.0	\$0.1	\$2.2
Planting Refresh			\$0.6
Total	\$1.0	\$5.6	\$5.5

Chart above demonstrates annual needs to achieve the goals outlined in the Master Plan of providing equitable access to parks and recreational experiences.

<u>Operations and Maintenance - \$1M Annual Gap</u> - The daily tasks needed to keep parks and recreation facilities running and minor repairs to capital assets to keep them in a good state of repair.

• This is the smallest portion of need, current funding levels are close to sufficient, but this will need to be monitored as additional parks come online and expand the portfolio for O&M.

<u>Life Cycle Replacement (Capital) - \$5.6M Annual Gap</u> - Includes critical maintenance projects or repair of existing assets when regular maintenance can no longer keep them in a good state of repair, and safety and ADA (Americans with Disabilities Act) improvements. Many of these types of improvements typically require one-time funding and are not likely to increase annual operations and maintenance costs. In many cases, these types of projects may reduce annual operations and maintenance costs.

- The parks Life Cycle Program completes an average of 30 40 projects per year. Projects include items like: playground renovations, court asphalt repairs and replacement, minor irrigation renovations, walkway and bridge replacement, lighting upgrades, park roadway and parking lot repairs and renovations, building renovations and improvements, fencing replacement, etc.
- Each year the Life Cycle Program prioritizes projects based on available funding; focusing on health and safety concerns and regulatory mandates. The program also looks for opportunities to replace outdated, resource intensive infrastructure with more sustainable infrastructure that meets current codes and best management practices.
- A recent life cycle replacement project would be Golden Meadows Park, which began playground replacement in 2021. The park was originally established in 1985. Ideally playground should be replaced every 15-20 years.
- A potential life cycle replacement project in recreation would be The Farm at Lee Martinez Park walkways, which were created before ADA requirements were enacted after the facility was originally established in 1985. The changes would require substantial changes to the facility.

Minor Refresh (Capital) - \$5.5M Annual Gap - Minor refreshes include strategic changes to existing parks or recreation facilities to better meet the unmet needs of the community, including adding features such as play fields, shade structures, adult fitness equipment, covered picnic shelters, and trail loops to extend recreation opportunities. Minor refreshes may also include a refresh of plantings or other design elements within the framework of an existing, relevant site master plan. These types of improvements typically require one-time funding and may trigger increases in annual operations and maintenance costs, depending on the nature of the improvements.

• A minor refresh is appropriate when the current site master plan is still valid, but there are unmet community needs, the site is underused, a few amenities have reached the end of their usable

- life, plantings need to be refreshed, or elements of the design or function need to be rethought, requiring new design thinking.
- An example of a park that may be due for evaluation of a minor refresh is Rolland Moore, due to age and quantity of amenities that have been stretched beyond their useful life
- This is the category where the recreation needs are more significant, as many recreation facilities
 are approaching 40-50 years of service and substantial re-investment is needed to maintain the
 facility. Lifecycle re-investments in recreation facilities will be less frequent but individually more
 costly due to fewer facilities but substantially more expensive items to replace.

The Parks and Recreation master plan identified primary goals of providing equitable access to parks and recreational experiences. By investing in ongoing life-cycle replacements and minor refreshes, community members will experience a more consistent level of service across existing amenities, while the City minimizes costs associated with the need for a major refresh.

Transit

The Transit Master Plan (TMP), adopted by Council in April of 2019, outlines the vision and policies for expanding the transit system according to current and future demand. The costs over the next 20 years are significant and are not currently funded:

Needed costs outlined in the plan include federal grant funding to be matched by local dollars. Based on current federal allocations, the following assumptions have been made:

Capital Projects - Expect 50% Federal Match

• Local need over 20 years: \$7.7 million annually

Operations & Maintenance - Expect 25% Federal Match

Local additional need at full build-out: \$9.75 million annually

It is important to note that the cost estimates outlined in the TMP were based on 2016 operating figures and assumptions. These projections did not account for the transition of the Transfort fleet from CNG to zero-emission vehicles, which have a significantly higher up-front cost, but an expected lower operating and maintenance cost over the life of the vehicle.

Staff have hired a consultant to conduct a comprehensive Funding Study for Transfort, which will include:

- Updated capital, operating and maintenance estimates for the 20-year span of the TMP
- Identification of a preferred, dedicated and permanent funding source or sources, including extensive public outreach
- Full analysis of the current fare structure and associated costs, as well as feasibility of a fare-free system

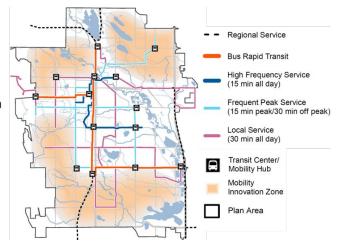
The Funding Study is expected to conclude no later than guarter 4 of 2022.

The TMP is an ambitious plan intended to transform mobility options throughout the City and region. This plan is also key to the City's Climate Action Plan. Plan highlights are described in the following graphic:

Plan Highlights

High frequency focus

- · 3 new Bus Rapid Transit routes
- 30 minute service or better throughout the system (other than BRT routes)
- Regional connections
- Mobility Hubs
- Innovation Zones (on- demand service)



Projects in support of the TMP, which are currently in development include, but are not limited to:

- West Elizabeth Bus Rapid Transit (BRT) This project is near completion of 30% design which
 will result in eligibility for Small Starts grant funding (the same program that helped complete
 MAX) as early as 2023, if local match can be secured. This project is currently in Project
 Development with the Federal Transit Administration (FTA)
- North College BRT extension A transit-oriented development (TOD) study is currently being conducted and is expected to complete in quarter two of 2022.
- North Transit Maintenance Facility Transfort has exceeded capacity at the Transit Maintenance Facility on Portner Road and further service expansion will require an additional facility. Staff are currently identifying potential locations for the new facility and will soon have a funding need to purchase this real estate. Once design is complete, staff will seek federal grant funding to build this project.
- Fleet Electrification Master Plan

Housing

Data compiled for the Housing Strategic Plan (HSP) illustrates that the housing needs in Fort Collins are concentrated at the lower end of the income spectrum. For renters, the need is greatest at 60% AMI and below (\$41,880 for a 2-person household); for owners, the need is greatest at 120% AMI and below (\$83,760 for a two-person household). However, it is important to acknowledge that there are also gaps in housing supply throughout the entire housing system.

City Plan estimated a housing shortage of approximately 2,000 units by 2040, assuming that growth and housing production remained relatively consistent over time. In short, housing price escalation and limited availability of housing in Fort Collins will likely continue to worsen unless we can increase the overall supply of housing while also seeking to increase the community's inventory of deed-restricted, affordable housing.

Rental Affordability, Fort Collins, 2019

Note: Income limits assume a 2-person household and allow for 30% of monthly income for housing costs. Source: 2019 American Community Survey (ACS), HUD 2019 Income Limits, and Root Policy Research.



Ownership Affordability, Fort Collins, 2019

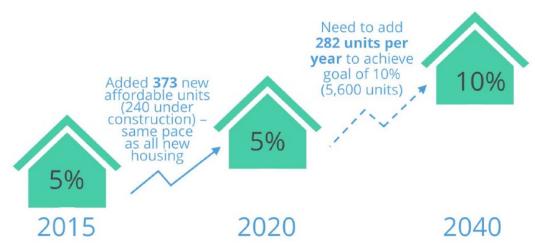
Note: Shortage shown in percentage points (%pp). Income limits assume a 2-person household and allow for 30% of monthly income for housing costs including 30-year fixed mortgage with 4% interest rate and 5% down payment.

Source: 2019 ACS, Larimer County Assessor Sales Database 2020, HUD 2019 Income Limits, and Root Policy Research.



Cumulative Supply and Demand by Income and Affordability Level

In 2015, affordable housing made up 5% of the City's housing stock. Between 2015-2019, the City and its partners added 373 new affordable homes. In 2020 and 2021, an additional 246 homes were added to the City's affordable housing inventory. However, the total number of housing units has also increased proportionally, which means that affordable units still make up only 5% of our overall housing stock. To achieve the 10% goal by 2040, we need to increase the amount of affordable housing by 282 or more units every year. This is more than double the City's average annual production of affordable housing.



Source: City of Fort Collins Housing Strategic Plan and Root Policy Research.

While the City provides between \$1.5 million to \$3 million in direct subsidy funding every year, these resources are not enough to meet the affordable housing goals. The City needs about 700 additional affordable units to meet our 2020 goal of 6% of all housing being affordable.

On an ongoing basis, the City's annual affordable housing production goal is 282 units or more of affordable housing each year. Assuming that a \$39,000 investment yields one unit of affordable housing, the estimated annual funding need for affordable housing is \$10-11.5 million per year (\$8-9.5 million above current levels). This calculation also assumes that federal subsidies for the development of affordable rental housing (Low Income Housing Tax Credits) remain steady, that there are enough tax-exempt government bonds (Private Activity Bonds, or PABs) available to support each project, and that private developers have the ability to deliver projects.

The strategy section of the Housing Strategic Plan includes recommendations for new and expanded tools and funding sources to better support achieving our housing goals. Strategy 11 specifically recommends creation of a new dedicated revenue stream for affordable housing:

• Revenue Options for Housing (Strategy 11 – Create a new dedicated revenue stream to fund the Affordable Housing Fund): Though Fort Collins invests \$1.5-3 million into affordable housing production and preservation annually, the HSP estimates that the total annual funding need is closer to \$10-11.5 million. Exploring a range of options (sales tax, impact fees, inclusionary housing fees-in-lieu, etc.) to generate consistent, dedicated, and flexible revenue for affordable housing will be a critical piece of HSP implementation. In addition, the current Community Capital Improvement Program quarter-cent sales tax that funds the Affordable Housing Capital Fund and other capital improvements will expire in 2025.

CLIMATE ACTION

WHY

Fort Collins' has had ambitious climate goals since 1999, and this decade is a critical time for action as our community equitably transitions from reducing emissions 20% below 2005 levels to 80% below. While accelerating existing actions was the primary focus for achieving the 2020 goals, transformational action is required to achieve the 2030 goals in a way that is equitable and community-centered.

The following sections highlight two main components:

- Areas of *alignment* with advancing the climate goals and *gaps* that would remain if Council only was able to prioritize these priority funding areas.
- Examples of dedicated funding sources from across that country that illustrate how other communities are funding mitigation, resilience, and equity-centered solutions.

ALIGNMENT & OPPORTUNITIES WITH PRIORITY FUNDING AREAS

Climate action impacts nearly every aspect of our community as evidenced by Our Climate Future engagement showing top community priorities for a sustainable Fort Collins to include Local Transit (62%), More Reuse, Recycling and Composting (54%), and More Renewable Energy (47%), but also Affordable Housing (25%) and a Healthy Natural Environment (23%).

The table below illustrates how the priority funding areas advance climate action (highlighted in light blue) and additional areas of need would remain.

	Action Area	Alignment with Climate Action		
	Convenient	- Critical Path for achieving 2030 climate goals		
<u>9</u>	Transportation	- 23% of carbon emissions in 2020 were from transportation		
	Choices (Transit)	- Improves air quality and delivers significant equity benefits		
	Healthy Affordable	- Reduces emissions by fostering 15-minute communities		
AREAS	Housing	- Greater efficiencies advance healthier housing, a key element of the		
		Housing Strategic Plan vision		
PRIOTITY FUNDING AREAS	Healthy Natural	- Climate resilience benefits for individuals, community, & natural system		
삐	Spaces (Parks)	- Reduces energy and water demands, electrifying fleet improves air quality		
		and reduces emissions		
	Renewable Energy	- Critical Path for 2030 climate & 100% renewable electricity goals		
S		- Around 67% of carbon emissions were from energy, mostly from buildings		
5		- Significant investments will be required to transform this sector at scale		
STRATEGIES	Composting	- Critical Path for achieving 2030 climate and zero waste goals		
I K		Waste accounts for around 3% of the community's carbon emissions and		
		around half of its municipal solid waste.		
₽		- Top priority of BIPOC and historically under-represented groups		
	Priorities Beyond	- Big Moves contributing substantial carbon emissions reductions		
	OCF Critical Path	(approximately half of goal) while advancing equity and resilience.		
N N N N N N N N N N N N N N N N N N N	Strategies	- Shared Leadership & Community Partnership		
		- Climate Resilient Community		
ADDITIONAL CLIMATE		- Local, Affordable and Healthy Food		
A		- Healthy Local Economy and Jobs		
		- Electric Cars and Fleets		

EXAMPLES FROM OTHER COMMUNITIES

From initial research, staff has identified almost twenty communities and institutions that are prioritizing sustainable funding solutions for climate action, with examples of the following approaches as the primary focus in this initial research:

- Sales Tax
- Retail Tax
- Fossil Fuel Production Tax

- Electricity Consumption (Carbon) Tax
- Climate Bonds
- Resilience Bonds

The following table highlights eight examples of approaches that U.S. communities have taken:

Community	Funding source	How much funding is generated	What is funded
Denver, CO	Sales tax (0.25% increase on non-essentials)	\$20-40M/year	Solutions centered in equity and climate justice that reduce emissions and enhance resilience, e.g., workforce development, carbon free buildings, transit
Cincinnati, OH	Sales tax (0.80%)	Up to \$130M/year	Transit-focused (\$100/\$130M)
Portland, OR	Retail tax - clean energy community benefits fund (1% gross receipts)	\$44-61M/year	Climate action advances racial and social justice; cost burden placed on large retailers that make >\$1B in gross sales nationally
Long Beach, CA	Fossil fuel production tax - Barrel tax (\$.15/barrel)	\$1.6M/year	Climate, community health, and youth services
Boulder, CO	Electricity consumption tax (renewable exempt; rates vary by sector, driven by level of consumption)	\$1.8M	Residential and commercial building efficiency; local renewables EV market renovation; strategy development; outreach and program evaluation
Albany, CA	Electricity consumption tax (increase from 7% to 9.5% tax, low-income residents exempt)	\$675K/year	Funds disaster and emergency preparedness; reducing greenhouse gas emissions; emergency response; environmental sustainability
Miami, FL	Climate bonds	One-time \$400 million general obligation bond	Intended for large-scale, capital- intensive projects; used to develop clean energy, transportation, water, and green building projects. Focused on adaptation and resilience in the face of sea level rise and more frequent and extreme storms
NYC's MTA	Resilience bonds	Two one-time bonds, totaling \$325M	Reducing a city's climate risk or liability exposure; obtaining funding for specific resilience projects; reducing the cost of insurance or expanding insurance coverage for municipal assets