

STAFF REPORT

For Meeting of November 14, 2016

MAYOR AND MEMBERS OF THE CITY COUNCIL

Agenda Item #

NO. 2016-

SUBJECT:

Resolutions 2042
and 2043

Subject

Consider resolution 2042 re-adopting the City's financial policies and resolution 2043 re-adopting the City's investment policy.

Summary and Background

Resolution 2042 (supersedes Resolution 2010) re-adopts the financial policies for the City. The City Council adopted written financial policies on August 26, 2013 and adopted revised policies in 2014 and 2015. The policy document provides for an annual review to ensure continued relevance and to identify any gaps that should be addressed with new policies. I am not recommending any changes to the financial policies this year so they simply need to be reviewed by Council and re-adopted.

Resolution 2043 (supersedes Resolution 2011) re-adopts the City's investment policy. Per ORS 294.135 investments made by political subdivisions of Oregon may not exceed a maturity of 18 months or the date of anticipated use of the funds, whichever period is shorter, unless the governing body has adopted a written investment policy. The policy must provide for re-adoption not less than annually. The City Council adopted an investment policy on August 26, 2013 and re-adopted it in 2014 and 2015. I am not recommending any changes to the policy this year so it also just needs to be reviewed by Council and re-adopted.

Fiscal Information

None.

Alternatives and Recommendation

Alternatives

Adopt either resolution 2042 or 2043, neither resolution or both.

Recommendation

Adopt both resolutions.

Requested Action/Motion

Approve both resolutions.

Reviewed by:



Department Head



City Manager Approval

City of Hermiston

RESOLUTION NO 2042

A RESOLUTION RE-ADOPTING FINANCIAL POLICIES FOR THE CITY OF
HERMISTON AND SUPERSEDING RESOLUTION NO. 2010

WHEREAS, the City of Hermiston is committed to the highest level of financial integrity, and

WHEREAS, the City of Hermiston is accountable to its citizens for the use of public dollars, and

WHEREAS, written, adopted financial policies have many benefits, such as assisting the Council and City Manager in the financial management of the City and fostering public confidence, and

WHEREAS, the City Council enacted Resolution 2010 on December 28, 2015 revising its written financial policies for the City of Hermiston, and

WHEREAS, the written, financial policies have been reviewed and determined that no revisions are currently needed, now, therefore,

IT IS HEREBY RESOLVED that the Financial Policies, attached hereto as Exhibit "A", are hereby re-adopted as the City of Hermiston's Financial Policies.

IT IS FURTHER RESOLVED that this resolution is effective immediately upon its passage and that Resolution No. 2010 is superseded by this resolution.

Dated this 14th day of November 2016.

CITY OF HERMISTON

By: _____
MAYOR

ATTEST:

By: _____
CITY RECORDER

CITY OF HERMISTON FINANCIAL POLICIES



*Adopted August 26, 2013
Revised November 24, 2014
Revised December 28, 2015
Re-adopted November 14, 2016*

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I. STATEMENT OF PURPOSE

The City of Hermiston is committed to the highest level of financial integrity. We are accountable to our citizens for the use of public dollars, and resources should be used wisely to ensure adequate funding for the services, public facilities and infrastructure necessary to meet the community's present and future needs.

Written, adopted financial policies have many benefits, such as assisting the Council and City Manager in the financial management of the City, saving time and energy when discussing financial matters, fostering public confidence, and providing continuity over time as Council and staff members change. The purpose of the financial policies is to enable the City to achieve and maintain a long-term stable and positive financial condition. The policies are adopted by the City Council and establish the framework for Hermiston's overall financial planning and management, to guide day-to-day and long-range fiscal planning and decision making, and to achieve the following general financial goals:

1. Ensure the financial integrity of the City.
2. Provide an adequate financial base to sustain a sufficient level of municipal services to maintain the social well-being and physical condition of the City.
3. Provide and maintain essential public facilities, utilities and capital equipment.
4. Enhance policy setting for and sound management of City government by providing accurate and timely information on current and anticipated financial conditions.
5. Protect and enhance the City's credit ratings.
6. Provide the financial stability needed to navigate through economic downturns, adjust to changes in the service requirements of the community and respond to other changes as they affect the City's residents.

II. ACCOUNTING AND FINANCIAL REPORTING POLICIES

1. The City will comply with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA); Oregon Revised Statutes relating to Municipal finance; and prevailing federal, state and local statutes and regulations.
2. The City will prepare a Comprehensive Annual Financial Report (CAFR) and submit its CAFR to the GFOA's "Certificate of Achievement for Excellence in Financial Reporting" program.
3. Monthly financial reports showing revenue and expenditure activity for each fund will be distributed to the City Manager and City Council.
4. A system of internal controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions and compliance with applicable laws and regulations.
5. The City will maintain accounting records by fund. Per GAAP, proprietary funds will use the accrual basis of accounting and government funds will use the modified accrual basis of accounting. Changes in the basis of accounting will be explained in the budget message for the year in which the change is planned.
6. In accordance with Oregon Administrative Rules, the City will have its accounts and fiscal affairs audited annually in accordance with generally accepted auditing standards (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA).
7. Full disclosure will be provided in the financial statements and bond representations.

III. BUDGET POLICIES

1. The operating budget shall serve as the annual financial plan for the City. It will serve as the policy document of the City Council for implementing Council goals and objectives.
2. The City Council will adopt and maintain a balanced annual operating budget in conformance with existing state and local regulations. Per Local Budget Law, the City Council shall adopt the budget at the fund, department or program level as appropriate.
3. Budget control and accountability is maintained at the same level it is appropriated.
4. The Budget Officer shall annually prepare and present a proposed operating budget to the Budget Committee no later than May 30 of each year, and the City Council will adopt the budget no later than June 30 of each year.
5. Historical trend analysis will be performed on both revenues and expenditures as part of the budget process. Efforts will be made to identify potential deviations from the trends and this information will be factored into revenue and expenditure forecasts.
6. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the City Council.
7. The budget process will be coordinated so that major policy issues and department goals and objectives are identified and incorporated into the budget.
8. Monthly reports comparing budgeted to actual revenues and expenditures will be distributed to the City Manager and City Council. Significant variances will be investigated and explained.
9. The operating budget will be constrained to the total amount approved by the Budget Committee and as adjusted and adopted by the City Council.
10. A mid-year review process will be conducted by the City Manager to make any necessary adjustments to the adopted budget.
11. All resolutions adjusting the budget will be prepared by the Finance Department for Council approval to ensure compliance with budget laws.

IV. CAPITAL MANAGEMENT POLICIES

1. The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future operating maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues when possible.
2. The City will determine the least costly funding method for its capital projects and will obtain grants, contributions and low-cost state or federal loans whenever possible.
3. The City will establish capital equipment reserves to provide for funding of vehicles and equipment. The City will also establish major repairs and replacement reserves to provide for funding of major repairs and replacements.
4. The City will utilize "pay-as-you-go" funding for capital improvement expenditures considered recurring, operating or maintenance in nature. The City may also utilize "pay-as-you-go" funding for capital improvement expenditures when current revenues and adequate fund balances are available or when issuing debt would adversely affect the City's credit rating.
5. The City will consider the use of debt financing for capital projects under the following circumstances:
 - a. When the project's useful life will exceed the terms of the financing;
 - b. When resources are deemed sufficient and reliable to service the long-term debt; and
 - c. When market conditions present favorable interest rates for City financing.

V. DEBT POLICIES

Local government debt should not be viewed as revenue to supplement local government or municipal operating budgets. Rather, bonds are loans with significant costs and are incurred with an obligation for current and “future” taxpayers to repay. Issuing debt is theoretically justified on the basis of several factors, for example:

- Borrowing distributes costs and payments for a project or improvement to those who will benefit from it over its useful life rather than requiring today’s taxpayers or rate payers to pay for future use.
- During times of inflation, debt allows future repayment of borrowed money in cheaper dollars.
- Borrowing can improve a municipality’s liquidity to purchase needed equipment or for project construction and improvements. Debt issuance also does not exhaust current cash-on-hand, allowing such dollars to be used for operating expenses.

The following statements describe the City’s policies in regards to issuing and managing debt.

1. The City will comply with all statutory debt limitations imposed by Oregon Revised Statutes.
2. Proceeds from debt will be used for the purpose(s) specified in the debt issue. Funds remaining after the project is completed will be used in accordance with the provisions stated in the bond ordinance that authorized the issuance of the debt.
3. Interest earnings on bond proceeds will be limited to 1) funding the improvements specified in the authorizing bond ordinance, or 2) payment of debt service on the bonds.
4. The City will comply with all bond covenants, arbitrage requirements, EMMA filings, disclosure and other requirements specified by law.
5. The City will not issue long-term debt to finance current operations or to balance the budget.
6. The City may use short-term debt or inter-fund loans as permitted, to cover temporary shortages due to timing of cash flows which may result from delay in issuance of long-term debt.
7. The term of debt will not exceed the useful life of the improvements to be financed.
8. Outstanding debt may be *currently*¹ refunded to achieve interest cost savings or to remove debt covenants and structures which are not consistent with financial management goals. Outstanding debt may be *advance*² refunded when advantageous, legally permissible, prudent or net present value savings greater than 3% are available through refunding.
9. Total indebtedness including direct and overlapping debt will be analyzed in determining financial condition.
10. The City will prefer maturity schedules that yield level debt service payments over other schedules.
11. General and non-general obligation debt financings may be sold on a negotiated basis if it is found that the sale by negotiation provides significant cost or other advantages.
12. Agreement with commercial banks or other financial entities may be entered into for purposes of acquiring lines of credit that will provide access to credit under terms and conditions judged prudent and advantageous.

¹ Refundings are defined as current when new bonds are sold to refinance outstanding bonds prior to their maturities but after the call date has occurred or is about to occur. The refunding cannot take place earlier than three months before the call and any time afterwards. Under federal law the bond redemption must occur within 90 days of selling the new bonds or it will be considered an advance refunding. Under Oregon state law the bond redemption must occur within one year of selling the new bonds or is considered an advance refunding.

² Advance refundings occur when outstanding bonds are refinanced 90 days prior to their maturities and prior to the call dates for federal law purposes and one year for State of Oregon purposes.

VI. INTER-FUND LOAN POLICIES

In accordance with ORS 294.468 the City may loan money from one fund to another, provided the loan is authorized by an official resolution or ordinance of the City Council. In addition, the City will comply with the requirements and limitations of ORS 294.468 as follows:

- Loans may not be made from debt service funds.
- Loans made from debt service reserve funds created to provide additional security for outstanding bonds or other borrowing obligations are limited to amounts in the fund that are in excess of the amount the City has covenanted to maintain in reserve.
- Loans may not be made from moneys credited to any fund when there are constitutional provisions that restrict those moneys to specific uses, unless the purpose for which the loan is made is a use allowed under such constitutional provisions.
- The resolution or ordinance must state the fund from which the loan is made, the fund to which the loan is made, the purpose of the loan, and the principal amount of the loan.
- If the loan is an operating loan (a loan to cover operating expenses) it must be repaid to the fund from which it is borrowed by the end of the fiscal year, or the repayment must be budgeted and made in the next fiscal year.
- If the loan is a capital loan (a loan for the purpose of financing the design, acquisition, construction, installation or improvement of real or personal property), it must be repaid in full within 10 years of the date of the loan. The resolution or ordinance must set forth a schedule under which the principal and interest is to be budgeted and repaid. It must also state the rate of interest. The rate of interest may be the current rate of return on monies invested in the Local Government Investment Pool (LGIP) or such other rate as the governing body determines.
- If the loan will be repaid in the current fiscal year, no action by the City Council is necessary in regard to the budget. The budget does not need to be adjusted to show the loan transaction.
- If the loan will be repaid in one or more future fiscal year(s), the loan repayment must be budgeted and a separate debt service appropriation made for the expenditure.

VII. FUND BALANCE POLICY

The purpose of this policy is to outline the procedure for categorizing the different components of ending fund balance in conformity with GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The goal of Statement 54 is "to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions."¹ It also "establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds."¹

DEFINITIONS:

Governmental Fund – a type of fund in governmental accounting which is used to account for activities supported by taxes and general City revenues. Governmental funds are defined as the general, debt service, special revenue and capital projects funds.

Fund Balance – the difference between the assets and liabilities reported in a governmental fund.

Special Revenue Fund – a type of governmental fund used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

FUND BALANCE CLASSIFICATIONS:

In order of most to least restrictive fund balance classifications are:

- *Nonspendable* – resources that cannot be spent because they are either not in a spendable form, such as inventories or prepaid items, or legally or contractually required to be maintained intact.
- *Restricted* – resources that are constrained either (a) through external imposition by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) by law through constitutional provisions or enabling legislation.
- *Committed* – resources that can only be used for the specific purposes as determined by a formal action of the City Council. The Council can modify or rescind the action at any time. The same type of action that imposed the restriction must be used to modify or remove the restriction.
- *Assigned* – resources that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. An example of this is the annual budget. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- *Unassigned* fund balance is the residual classification for the general fund and includes all spendable amounts that are not restricted, committed or assigned.

PROCEDURES:

When the option is available to use restricted or unrestricted resources for any purpose, the City expends restricted resources first. When the option is available to use committed, assigned, or unassigned resources for any purpose, the City expends committed resources before assigned resources and assigned resources before unassigned.

¹ Governmental Accounting Standards Board Summary of Statement No. 54

VIII. EXPENDITURE POLICIES

1. The City will strive to ensure operating expenditures are supported by on-going operating revenues. Before the City undertakes any agreements that would create fixed, on-going expenditures, the cost implications of such agreements will be fully determined for current and future years.
2. Capital expenditures may be funded from one-time revenues.
3. Department heads are responsible for managing their budgets within the total appropriation for their department.
4. Expenditures will be controlled through appropriate internal controls and procedures.
5. All purchases of goods and services must comply with the City's Public Contracting Regulations, guidelines and procedures and with Oregon State laws and regulations.
6. The City will actively work to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost-effective and efficient.
7. Expenditures will be estimated realistically and prudently.

IX. FINANCIAL PLANNING POLICIES

1. The City will prepare a long-term financial plan to promote responsible planning for the use of resources. The long-term financial plan will include projected revenues, expenditures and reserve balances for the next five years.
2. The City's financial plan will be strategic, reflecting the Council's and the community's priorities for service while providing resources that realistically fund routine operations.
3. Long-term projections of revenues and expenditures will be realistic, conservative and based on best practices established by the Government Finance Officers Association.

X. INVESTMENT POLICY

The City's Investment Policy was adopted by Resolution 1946 on August 26, 2013.

The City's Investment Policy was re-adopted by Resolution 1968 on November 24, 2014.

The City's Investment Policy was re-adopted by Resolution 2011 on December 28, 2015.

The City's Investment Policy was re-adopted by Resolution 2043 on November 14, 2016.

X. RESERVE POLICIES

Maintaining adequate levels of reserves in the City's various funds is essential to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures, and to ensure stable services, tax rates and user fees. In addition, credit rating agencies monitor reserve levels to evaluate a government's continued creditworthiness. Thus, appropriate reserve levels also serve to lower the cost of borrowing.

1. **General Fund Reserves** – The City will maintain a minimum unrestricted fund balance¹ of 15% (two months) of General Fund annual operating expenditures.
2. **Utility Fund Reserves** - The City will maintain a minimum working capital² of forty-five (45) days of its Utility Fund annual operating expenses.
3. **Hermiston Energy Services (HES) Fund Reserves** - The City will maintain a minimum working capital of forty-five (45) days of HES Fund annual operating expenses.
4. **Reserve Fund** – The City will use the Reserve fund to accumulate money for long-term goals and projects of the City. Resources will be provided for the Reserve Fund primarily through appropriations from the operating funds and must be used for the specifically authorized goals listed in the resolution adopted to establish each account in the fund.
5. **Debt Service Reserves** - The City will maintain reserves for debt service as established by applicable bond covenants and other contractual agreements.

¹ Unrestricted fund balance is comprised of *committed*, *assigned* and *unassigned fund balance*. Fund balance is *committed* when Council takes action to constrain the use of the resources. The constraint must be removed by Council action. Examples include pool fees to be used for pool operations or recreation program fees to be used for recreation program expenses. Fund balance is *assigned* when the Council expresses its intent that the resources are to be used for a specific purpose. An example of this is the annual budget. *Unassigned* fund balance is the remaining amount and represents resources that have not been restricted, committed or assigned.

² Working capital is defined as current assets less current liabilities.

XI. REVENUE POLICIES

1. The City will seek to establish and maintain a diversified and stable revenue system to prevent undue or unbalanced reliance on any one source of funds.
2. The City will avoid the use of one-time revenues to fund ongoing expenditures.
3. User fees and charges will be established for services provided that benefit specific individuals or organizations. User fees and charges will be set at a level sufficient to recover full cost of service whenever practical to minimize subsidization by taxpayers. The City will periodically review user fees and charges and adjust them as needed for additional service costs and inflation.
4. The City will not respond to long-term (greater than one year) revenue shortfalls with deficit financing and borrowing to support on-going operations. Expenses will be reduced to conform to the long-term revenue forecasts and/or revenue increases will be considered.
5. Revenues will be estimated realistically and conservatively.
6. Utility funds will be self-supporting through user fees. User charges shall be levied on all users of the system which shall cover the cost of operation and maintenance, debt service and other administrative costs of treatment works.
7. The City will seek to collect all revenues that are due, using methods and practices that comply with all state, federal and other applicable laws and regulations. When necessary, discontinuing service, employing collection agencies, filing liens and other methods of collection, such as imposing penalties, collection and late charges, may be used.
8. Grants for programs or items which address the City's current priorities and policy objectives may be considered to leverage City funds.
9. The City will consider the matching requirements and other implications in terms of ongoing obligations that will be required in connection with the acceptance of a grant before accepting it.
10. All grants, awards and other state and federal funds will be managed to comply with the laws, regulations and guidance of the grantor.

XII. POLICY MAINTENANCE AND CONSIDERATIONS

1. **Review**

The Financial Policies shall be reviewed annually to ensure continued relevance and to identify any gaps that should be addressed with new policies.

2. **Policy Adoption and Amendments**

These Financial Policies and any modifications to them must be formally approved in writing by the City Council of the City of Hermiston.

RESOLUTION NO 2043

A RESOLUTION RE-ADOPTING THE WRITTEN INVESTMENT POLICY FOR THE CITY OF HERMISTON AND SUPERSEDING RESOLUTION NO. 2011

WHEREAS, pursuant to ORS 294.135 investments made by political subdivisions may not exceed a maturity of 18 months or the date of anticipated use of the funds, whichever period is shorter, except that investments having a maturity longer than 18 months may be made when the governing body has adopted a written investment policy, and

WHEREAS, the written investment policy must provide for re-adoption not less than annually by the governing body, and

WHEREAS, the City Council enacted Resolution 1946 on August 26, 2013, adopting a written investment policy that provided for review at least annually, and

WHEREAS, the City Council enacted Resolution 2011 re-adopting the written investment policy on December 28, 2015, now therefore,

IT IS HEREBY RESOLVED that the Investment Policy, attached hereto as Exhibit "A", is hereby re-adopted as the City of Hermiston's Investment Policy.

IT IS FURTHER RESOLVED that this resolution is effective immediately upon its passage and that this resolution supersedes Resolution No. 2011.

Dated this 14th day of November 2016.

CITY OF HERMISTON

By: _____
MAYOR

ATTEST:

By: _____
ASSISTANT CITY RECORDER

CITY OF HERMISTON INVESTMENT POLICY



Where Life is Sweet

*Adopted August 26, 2013
Re-adopted November 24, 2014
Re-adopted December 28, 2015
Re-adopted November 14, 2016*

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I. STATEMENT OF PURPOSE

The City of Hermiston's investment policy defines the parameters within which funds are to be invested. The City of Hermiston is a municipal corporation that provides a variety of services to its citizens. These include police protection, streets and street maintenance, sewer and water treatment, provision of building permits, city planning, library services and parks and recreation activities. This policy formalizes the framework, pursuant to ORS 294.135, for the City of Hermiston's investment activities to ensure effective and judicious management of funds within the scope of this policy. These guidelines are intended to be broad enough to allow designated investment staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. GOVERNING AUTHORITY

The City of Hermiston's investment program shall be operated in conformance with Oregon Revised Statutes and applicable Federal Law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810. All funds within the scope of this policy are subject to regulations established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

III. SCOPE

This policy applies to activities of the City of Hermiston with regard to investing the financial assets of all funds. The amount of money falling within the scope of this policy over the next three years is expected to range between \$10 million and \$20 million.

IV. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

1) Safety

Preservation of principal is the most important objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk.

2) Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon Short Term Fund which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

3) Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity.

V. STANDARDS OF CARE

1) Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy.

The "prudent person" standard states:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

2) Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Hermiston. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.

3) Delegation of Authority and Responsibilities

a. Governing Body

The City Council will retain ultimate fiduciary responsibility for invested funds. The City Council will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.155.

b. Delegation of Authority

Authority to manage investments within the scope of this policy and operate the investment program in accordance with established written procedures and internal controls is granted to the Finance Director, hereinafter referred to as Investment Officer, and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

c. Investment Adviser

The Investment Officer may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with this investment policy. If the City of Hermiston hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of the City of Hermiston. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Investment advisers may be hired on a non-discretionary basis.

VI. TRANSACTION COUNTERPARTIES, INVESTMENT ADVISERS AND DEPOSITORIES

1) Broker/Dealers

The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives. The following minimum criteria must be met prior to authorizing investment transactions:

- a. Broker/Dealer firms must meet the following minimum criteria:
 - i. Be registered with the Securities and Exchange Commission (SEC);
 - ii. Be registered with the Financial Industry Regulatory Authority (FINRA);
 - iii. Provide most recent audited financials; and
 - iv. Provide FINRA Focus Report filings.
- b. Approved broker/dealer employees who execute transactions with the City of Hermiston must meet the following minimum criteria:
 - i. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
 - ii. Be licensed by the state of Oregon; and
 - iii. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.
- c. The Investment Officer may require additional criteria be met before engaging broker/dealer firms and registered representatives. Additional requisites may include:
 - i. Positive references from at least three other local government clients;
 - ii. Requirement that approved registered representatives provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators;
 - iii. Requirement that prospective registered representatives have an established history of advising local governments with similar amounts of assets under management.
- d. Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Such review will include inquiries to determine:
 - i. Existence of any pending investigations by securities regulators;
 - ii. Significant changes in net capital;
 - iii. Pending customer arbitration cases;
 - iv. Regulatory enforcement actions.

2) Investment Advisers

A list will be maintained of approved advisers selected by conducting a process of due diligence. The following items are required for all approved Investment Advisers:

- a. The investment adviser firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon (*Investment adviser firms with assets under management greater than \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon*);
- b. All investment adviser firm representatives conducting investment transactions on behalf of the City of Hermiston must be registered representatives with FINRA;
- c. All investment adviser firm representatives conducting investment transactions on behalf of the City of Hermiston must be licensed by the state of Oregon;
- d. Certification, by all of the adviser representatives conducting investment transactions on behalf of the City of Hermiston, of having read, understood and agreeing to comply with this investment policy.

A Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Such review will include inquiries to determine:

- a. Pending investigations by securities regulators;
- b. Significant changes in net capital;
- c. Pending customer arbitration cases;
- d. Regulatory enforcement actions.

3) Depositories

All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

4) Competitive Transactions

- a. The Investment Officer should obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
- b. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.
- c. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.
- d. If an investment adviser provides investment management services, the adviser must retain documentation of competitive pricing execution on each transaction and provide upon request.

VII. ADMINISTRATION AND OPERATIONS

1) Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in the City of Hermiston's safekeeping institution prior to the release of funds.

2) Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the City of Hermiston. All securities will be evidenced by safekeeping receipts in the City of Hermiston's name. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

3) Internal Controls

The Investment Officer, the City Manager and the Hermiston City Council are responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of this Investment Policy and protected from loss, theft or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated periodically by the Investment Officer. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- a. Compliance with Investment Policy;
- b. Control of collusion;
- c. Separation of transaction authority from accounting and record keeping;
- d. Custodial safekeeping;
- e. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary;

- f. Clear delegation of authority to subordinate staff members;
- g. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form;
- h. Dual authorizations of wire and automated clearing house (ACH) transfers;
- i. Staff training;
- j. Review, maintenance and monitoring of security procedures both manual and automated.

4) Audit

An external auditor shall provide an annual independent review to assure compliance with Oregon state law and Hermiston's policies and procedures.

VIII. SUITABLE AND AUTHORIZED INVESTMENTS

1) Permitted Investments

The following investments are permitted pursuant to ORS 294.035, 294.040 and ORS 294.810:

- a. **US Treasury Obligations:** US Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest;
- b. **US Agency Obligations:** Senior debenture obligations of US federal agencies and instrumentalities of US government sponsored enterprises (GSE);
- c. **Oregon Short Term Fund**
- d. **Bank Time Deposits/Savings Accounts/Certificates of Deposit**

2) Approval of Permitted Investments

If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this policy has been amended and the amended version adopted by the City of Hermiston City Council.

3) Prohibited Investments

- a. **Private Placement or "144A" Securities**
Private placement or "144A" securities are not allowed. For purposes of the policy, SEC Rule 144A securities are defined to include commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.
- b. **US agency mortgage-backed Securities**
US agency mortgage-backed securities such as those securities by FNMA and FHLMC are not allowed.
- c. **Corporate Indebtedness**
Although allowable under Oregon state statute, the City of Hermiston shall not purchase Commercial Paper or Corporate Bonds.
- d. **Repurchase Agreements**
Although allowable under Oregon state statute, the City of Hermiston shall not invest in Repurchase Agreements.
- e. **Municipal Debt**
Although allowable under Oregon state statute, the City of Hermiston shall not invest in Municipal Debt.
- f. **Bankers Acceptances**
Although allowable under Oregon state statute, the City of Hermiston shall not invest in Bankers Acceptances.

g. Securities Lending

The City of Hermiston shall not lend securities nor directly participate in a securities lending program

4) Bank Demand Deposits and Time Deposits

- a. All bank demand deposits and time deposits (e.g. certificates of deposit and savings accounts) shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.
- b. Bank demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.

IX. INVESTMENT PARAMETERS

1) Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. Credit risk will be mitigated by the following guidelines:

a. Diversification

It is the policy of the City of Hermiston to diversify its investments. Where appropriate, exposures will be limited by security type, maturity, issuance, issuer and security type. Allowed security types and investment exposure limitations are detailed in the table below.

b. Investment Credit Ratings

Investments must have a rating from at least two of the following nationally recognized statistical ratings organizations (NRSRO): 1) Moody’s Investor Service; 2) Standard & Poor’s; and Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.

c. Diversification and Credit Exposure Constraints

The following table limits exposures among investments permitted by this policy.

| Issue Type | Maximum % of Holdings | Minimum Ratings Moody’s/S&P/Fitch |
|---|---------------------------------|--------------------------------------|
| US Treasury Obligations | 100% | None |
| US Agency Securities | 100% | - |
| Per Agency (Senior Obligations Only) | 100% | - |
| Oregon Short Term Fund | Maximum allowed per ORS 294.810 | - |
| Bank Time Deposits/Savings Accounts/Certificates of Deposit ⁽²⁾ | 50% | - |
| Per Institution | 25% | |

⁽¹⁾ 25% Maximum per ORS 294.035(D)

⁽²⁾ As authorized by ORS 294.035(3)(d)

d. Portfolio Credit Rating

The minimum weighted average credit rating of the portfolio’s rated investments shall be Aa/AA/AA by Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings Service respectively.

2) Liquidity Risk

Liquidity risk is the risk that an investment may not be easily marketable or redeemable. The following strategies will be employed to mitigate liquidity risks:

- a. The value of at least 25% of funds available for investing or three months of budgeted operating expenditures will be invested in the Oregon Short Term Fund, with a qualified depository institution,

or investments maturing in less than 90 days to provide sufficient liquidity for expected disbursements.

- b. Funds in excess of liquidity requirements are allowed for investments maturing in greater than one year. However, longer-term investments tend to be less liquid than shorter term investments. Portfolio investment maturities will be limited as follows:

| Maturity Constraints | Minimum % of Total Portfolio |
|----------------------|--|
| Under 90 days | 25% or three months estimated operating expenditures |
| Under 3 years | 50% |
| Under 5 years | 100% |

- c. Reserve or Capital Improvement Project monies may be invested in securities exceeding the maximum term if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

3) Interest Rate Risk

Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short-term cash needs and by making longer-term investments only with funds that are not needed for current cash flow purposes. Certain types of securities, including variable rate securities, securities with principal pay-downs prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

- a. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk;
- b. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk;
- c. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date or receive a fee other than interest for future deliveries;
- d. The maximum percent of callable securities in the portfolio shall be 75%;
- e. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy;
- f. The maximum portfolio average maturity (measured with state final maturity) shall be three years.

X. INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE

- 1) Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy, applicable bond covenants, ORS Chapter 294 and tax laws.
- 2) Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy’s liquidity risk constraints within section IX (2).

XI. INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENT FUNDS

Pursuant to ORS 294.135(1)(b), reserve or capital improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the City Council, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

XII. GUIDELINE MEASUREMENT AND ADHERENCE

1) Guideline Measurement

Guideline measurements will use par value of investments.

2) Guideline Compliance

- a. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
- b. Violations of portfolio guidelines as a result of transactions, actions to bring the portfolio back into compliance and reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the City Council.
- c. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

XIII. REPORTING AND DISCLOSURE

1) Compliance

The Investment Officer shall prepare a report at least quarterly that allows the City Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment oversight body. The report will include, at a minimum, the following:

- a. A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity;
- b. Weighted average maturity of the portfolio at period-end;
- c. Maturity distribution of the portfolio at period-end;
- d. Average portfolio credit quality of the portfolio at period-end;
- e. Average weighted yield to maturity of the portfolio;
- f. Distribution by type of investment;
- g. Transactions since last report;
- h. Distribution of transactions among financial counterparties such as broker/dealers;
- i. Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

2) Performance Standards/Evaluation

At least annually, the Investment Officer shall report comparisons of investment returns to relevant alternative investments and comparative Bond Indices. The performance of the portfolio should be compared to the performance of alternative investments such as available certificates of deposit; the Oregon Short Term Fund; US Treasury rates or against one or more bond indices with a similar risk profile.

When comparing performance, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

3) Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.

4) Audits

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

XIV. POLICY MAINTENANCE AND CONSIDERATIONS

1) Review

The Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

2) Exemptions

Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

3) Policy Adoption and Amendments

This Investment Policy and any modifications to this policy must be formally approved in writing by the City Council of the City of Hermiston.

This policy must be submitted to the Oregon Short Term Fund (OSTF) Board for review if:

- a. This policy allows maturities beyond 18 months unless the funds are being accumulated for a specific purpose, including future construction projects, and upon approval of the City Council, the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)), and either
 - i. This policy has never been submitted to the OSTF Board for comment; or
 - ii. Material changes have been made since the last review by the OSTF Board.

Regardless of whether this policy is submitted to the OSTF Board for comment, this policy shall be re-submitted not less than annually to the City Council for approval.

STAFF REPORT

For Meeting of November 14, 2016

MAYOR AND MEMBERS OF THE CITY COUNCIL

NO. 2016-

SUBJECT: 2016-17
Supplemental
Budget

Subject

Resolution to supplement the 2016-17 annual budget.

Summary and Background

Resolution number 2044 is being presented tonight for Council approval. The resolution authorizes additional expenditures in the Utility Fund and the Reserve Fund. The Utility Fund supplemental request is \$1,420,200 and the Reserve Fund request is \$11,050.

The Utility Fund request is for the following:

- \$1,390,100 for draining the sludge lagoon (originally budgeted in 2015-16 but unspent as of June 30, 2016);
- \$9,880 for additional engineering costs to monitor the treatment plant; and
- \$22,220 for pump repair parts.

The Reserve Fund request is for higher than anticipated costs to purchase pick-up trucks for the Sewer department.

Fiscal Information

The total supplemental budget request is \$1,431,250.

Alternatives and Recommendation

Alternatives

1. Do not supplement the budget.
2. Supplement the budget for a different amount

Recommendation

I recommend that Resolution 2044 be adopted.

Requested Action/Motion

Motion to adopt resolution 2044.

Reviewed by:



Department Head: Amy Palmer



City Manager Approval

RESOLUTION NO. 2044

WHEREAS, ORS 294.471 permits the governing body of a municipal corporation to adopt a supplemental budget for the fiscal year for which the regular budget has been prepared if an occurrence or condition that was not known at the time the budget was prepared requires a change in financial planning or creates a pressing necessity for prompt action; and

WHEREAS, the conditions requiring a change in financial planning are listed in Exhibit A attached to and made a part of this resolution, now, therefore,

BE IT RESOLVED that due to the conditions listed in Exhibit A that were not known at the time the budget was prepared, the total budget for the City of Hermiston for the fiscal period beginning July 1, 2016 is hereby supplemented in the amount of **\$1,431,250**. The amounts for the purposes shown below are hereby appropriated:

UTILITY FUND

Requirements:

| | |
|--|------------------|
| Materials & Supplies | <u>1,420,200</u> |
| Total Utility Fund Requirements | 1,420,200 |

RESERVE FUND

Requirements:

| | |
|--|---------------|
| Capital Outlay | <u>11,050</u> |
| Total Reserve Fund Requirements | 11,050 |

Total Appropriations **\$1,431,250**

This resolution shall become effective immediately upon its passage as of the date and year set out below.

PASSED by the Common Council this 14th day of November, 2016

SIGNED by the Mayor this 14th day of November, 2016

MAYOR

ATTEST:

ASSISTANT CITY RECORDER

| Fund No. | Description | 2016-17 Adopted Budget | Budget Supp Res 2044 | 2016-17 Amended Budget |
|-----------------|-------------------------|-------------------------------|-----------------------------|-------------------------------|
| 2 | Bonded Debt Fund | 699,925 | - | 699,925 |
| 3 | General Fund | 15,187,125 | - | 15,187,125 |
| 4 | Street Fund | 1,730,474 | - | 1,730,474 |
| 5 | Transient Room Tax Fund | 830,460 | - | 830,460 |
| 6 | Utility Fund | 7,310,820 | 1,420,200 | 8,731,020 |
| 7 | Recreation Fund | 375,000 | - | 375,000 |
| 8 | Reserve Fund | 6,330,090 | 11,050 | 6,341,140 |
| 10 | Muni Court Fund | 281,900 | - | 281,900 |
| 11 | Misc Spec Rev Fund | 35,000 | - | 35,000 |
| 12 | Conference Ctr Fund | 237,525 | - | 237,525 |
| 13 | Energy Services Fund | 11,970,249 | - | 11,970,249 |
| 15 | Regional Water Fund | 1,317,060 | - | 1,317,060 |
| 19 | Christmas Express | 34,690 | - | 34,690 |
| 20 | Law Enforcement Fund | 78,880 | - | 78,880 |
| 21 | Library Fund | 57,200 | - | 57,200 |
| 32 | Sr Center Const Fund | 2,706,300 | - | 2,706,300 |
| Total | | 49,182,698 | 1,431,250 | 50,613,948 |

| | 2016-17 Adopted Budget | Budget Supp Res 2044 | 2016-17 Amended Budget |
|--------------------------------|-------------------------------|-----------------------------|-------------------------------|
| UTILITY FUND | | | |
| Taxes & Assessments | 20,900 | | 20,900 |
| Interest | 8,000 | | 8,000 |
| Service Charges | 5,378,920 | | 5,378,920 |
| Transfers In | 263,000 | | 263,000 |
| Cash Forward | 1,640,000 | 1,420,200 | 3,060,200 |
| Total Resources | 7,310,820 | 1,420,200 | 8,731,020 |
| Sewer | 3,495,515 | 1,420,200 | 4,915,715 |
| Water | 3,040,305 | | 3,040,305 |
| Capital outlay | - | | - |
| Transfers Out: | | | |
| Bonded Debt Fund | - | | - |
| General Fund | - | | - |
| Reserve Fund | - | | - |
| Reserve for Future Expenditure | 775,000 | | 775,000 |
| Total Requirements | 7,310,820 | 1,420,200 | 8,731,020 |

EXHIBIT A

| RESERVE FUND | 2016-17 Adopted Budget | Budget Supp Res 2044 | 2016-17 Amended Budget |
|---------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| Interest Earnings | 50,000 | | 50,000 |
| From Other Agencies | 1,161,850 | | 1,161,850 |
| Service Charges | 45,000 | | 45,000 |
| Transfers In | 939,882 | | 939,882 |
| Cash Forward | 4,133,358 | 11,050 | 4,144,408 |
| Total Resources | 6,330,090 | 11,050 | 6,341,140 |
| Materials & Services | 817,274 | | 817,274 |
| Capital Outlay | 4,026,798 | 11,050 | 4,037,848 |
| Transfers Out: | | | |
| Utility Fund | 263,000 | | 263,000 |
| HES Fund | - | | - |
| Debt Service | 165,000 | | 165,000 |
| Contingency | 65,245 | | 65,245 |
| Reserve for Future Expenditures | 992,773 | | 992,773 |
| Total Requirements | 6,330,090 | 11,050 | 6,341,140 |

| | | | | |
|---------------------|-------------------|------------------|----------|-------------------|
| Total Budget | 49,182,698 | 1,431,250 | - | 50,613,948 |
|---------------------|-------------------|------------------|----------|-------------------|

| | | | | |
|-----------------------------|-------------------|------------------|----------|-------------------|
| Total Appropriations | 45,370,520 | 1,431,250 | - | 46,801,770 |
|-----------------------------|-------------------|------------------|----------|-------------------|

EXHIBIT A

UTILITY FUND

Authorize expenditure of \$1,390,100 from cash for draining the sludge lagoon, \$9,880 for engineering costs to monitor the treatment plant, and \$22,220 for pump repair parts.

RESERVE FUND

Authorize expenditure of \$11,050 from cash for additional costs to purchase pick-ups for Sewer Dept.