THE CITY OF ASPEN

Financial Policies

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INTRODUCTION

The City of Aspen ("City") is a Colorado home rule municipality operating under its City Charter ("Charter"). The City functions under the direction of a City Manager ("Manager") who is appointed by a Mayor and four-member City Council ("Council"). The State Constitution and the City Charter provide the basic legal requirements and timelines for policies, while Council approves goals, ordinances and resolutions that provide more specific direction that responds to the needs of the City.

The City of Aspen Staff ("Staff") has an important responsibility to carefully account for public funds, to manage municipal finances wisely and to plan and provide for the adequate funding of services desired by the public and as required by laws, rules or regulations, including the provision and maintenance of public facilities and improvements. The financial goals and policies set forth in this document are intended to establish guidelines for the continued financial strength and stability of the City.

FINANCIAL GOALS

Financial goals are broad, timeless statements of the financial management the City seeks to maintain. A fiscal policy that is adopted, adhered to and regularly reviewed is recognized as the cornerstone of sound financial management. The financial goals for the City of Aspen are:

- To promote cooperation and coordination within the City in the delivery of services.
- To provide full value for each tax dollar by delivering quality services efficiently and on a cost-effective basis.
- To preserve quality of life by providing and maintaining adequate financial resources and capital assets necessary to sustain the desired level of municipal services and meet long-term needs.
- To respond to changes in the economy, the priorities of governmental and non-governmental organizations and other changes that may affect financial well-being.
- To minimize financial risk in providing services and maintain a strong credit rating in the financial community.
- To annually prepare a budget, submit it to Council for approval and publicly issue a budget document.
- To identify costs and funding sources before recommending approval of capital and operating budgets.
- To view the budget as a dynamic rather than static plan requiring periodic adjustments as circumstances change.

FINANCIAL REPORTING AND AUDITING

The City will establish and maintain a high standard of accounting practices. Accounting standards will conform to Generally Accepted Accounting Principles ("GAAP") as outlined by the Governmental Accounting Standards Board ("GASB"). Accounting standards will reflect Best Practices recommended by the Government Finance Officers Association ("GFOA").

After each fiscal year, a certified public accounting firm will conduct an audit of the City records. The report will include a financial opinion and a management and compliance report on internal controls. Annually, a comprehensive annual financial report will be prepared for the City. This report shall be made available to Council, Staff, bond-rating agencies and the general public.

The City will complete periodic reports as needed and requested by the City Manager and Council, which may include monthly revenue and expenditure reports, quarterly forecast reports, sales tax reports and an annual budget report.

Multi-year capital improvement projects shall be reported on a multi-year basis, comparing original budgets, amendments to the budget and all costs over the life of the project. In the case of housing projects, the original anticipated subsidy and changes to the subsidy over the life of the project shall also be tracked and reported.

BUDGET POLICIES

BUDGET OVERVIEW

The preparation and adoption of the annual budget is an important exercise for the entire organization. Sound financial practice and the desire to maintain a strong credit rating dictate that the budgets be balanced, constantly monitored and responsive to changes. The process encompasses an extended period of planning, review, forecasting and priority setting. The City's annual budget is a comprehensive fiscal plan which spells out how services will be provided and community improvements will be achieved. Upon its adoption by Council, it becomes a controlling mechanism by which to measure the resources receipted and expenditures made to meet approved objectives.

The annual budget is a plan which provides the Council and City Manager with the financial information necessary for the allocation of resources to accomplish the goals and objectives of the City. The provision of municipal services is accomplished through the budget. The budget, along with the annual appropriation ordinances, provides the basis for the control of expenditures and sets the financial guidelines for the City. The basic legal requirements and budget process are defined by the State Constitution and the City Charter. Council approves the budget objectives.

BUDGET PHILOSOPHY

The City is committed to developing a sound financial plan. The City provides a wide variety of services to the residents of the community, and it is the responsibility of Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community. To achieve this, the City:

- Utilizes conservative growth and revenue forecasts;
- Prepares multi-year plans for operations and capital improvements;
- Establishes budgets for all Funds based on Council approved budget assumptions;
- Appropriates the budget in accordance with the City Charter and State Constitution; and
- Develops a budget that provides service levels which reflect the needs of the community.

The City manages a bottom line budget. Funds and Departments are required to allocate resources and manage operations to achieve their core mission within the funding level provided. Changes in service level requirements mandated by law, directed by Council or influenced by other factors (changes in technology, annexations, reorganizations of Departments, etc.) provide a basis for changes in base level funding. Increases in funding are requested as supplemental or new program appropriation requests. If a Fund or Department experiences a decrease in needs, resources can be reallocated within the City as needed.

BALANCED BUDGET

Fiscal Year

The fiscal year of the City shall begin on the first day of January and end on the last day of December.

Submission of Budget and Budget Message

The City Manager, prior to the beginning of each fiscal year, shall submit to Council the budget for said ensuing fiscal year and an accompanying message.

The City Manager's message shall explain the budget both in fiscal terms and in terms of the work programs. It shall outline the proposed Financial Policies of the City for the ensuing fiscal year, describe the important features of the budget, indicate any major changes from the current year in Financial Policies, expenditures and revenues, together with the reasons for such changes, summarize the City's debt position and include such other material as the City Manager deems desirable or which the Council may require.

Budget Content

The budget shall provide a complete financial plan of all Funds for the ensuing fiscal year and, except as required by law or the Charter, shall be in such form as the City Manager deems desirable or Council may require. In organizing the budget, the City Manager shall utilize the most feasible combination of expenditure classification by Fund, Department, Program and Object. It shall begin with a clear general summary of its contents and shall be so arranged as to show comparative figures for actual and estimated revenue and expenditures of the preceding fiscal year. It shall indicate in separate sections:

- Anticipated revenues classified as amounts to be received from taxes and fees and miscellaneous revenues;
- Proposed expenditures for current operations during the ensuing fiscal year, detailed by Departments and Funds in terms of their respective programs and the method of financing such expenditures;
- Required expenditures for debt service, judgments and statutory expenditures;
- Proposed capital expenditures during the ensuing fiscal year, detailed by Departments and Funds when practicable and the proposed method of financing each such capital expenditure;

- Anticipated beginning and ending balances or deficit for the ensuing fiscal year for all Funds.

The total of proposed expenditures and provision for contingencies shall not exceed the total of estimated revenue and use of fund balance consistent with provisions of this Financial Policy unless necessitated by emergency situations.

Long Range Plans

Staff will provide Long Range Plans ("LRP's") which forecast the fiscal condition of every major City Fund over a ten year horizon. These plans are to be used to analyze the long term financial impact of changes in revenue streams, funding levels, programmed services and capital improvements during the current fiscal year. Years two through ten are for planning purposes only.

LRP's are used as financial models throughout the year to assess financial impacts as policy issues arise and are relied upon for estimating the fiscal impact of budgetary changes.

Asset Management Plan

An Asset Management Plan ("AMP") will be developed for a period of ten (10) years. The AMP will be reviewed and updated annually. Years two through ten are for planning purposes only.

The City's AMP includes the purchase, renovation or upgrade of new and existing municipal facilities, properties and equipment. The AMP is funded from multiple sources depending on the type of project and the use of the asset.

To be considered in the AMP, a project must have an estimated cost of at least $10,000. Certain assets below that cost may be included for informational and planning purposes at Council's discretion. Staff will identify the estimated costs and potential funding sources for each capital project prior to inclusion in the AMP. The operating costs to maintain capital projects shall be considered prior to undertaking the capital projects. The impacts of capital assets are budgeted for in the operating budgets.

Budget Adoption

Budget Hearing

The City of Aspen's budget is adopted at a public hearing by resolution. The public hearing will be held at least fifteen (15) days prior to the County's deadline of December 15th for the certification of the tax levy. Public notice is published seven (7) days prior to the hearing. See Section 9.6 of the Charter.

Council Amendments

After the public hearing, Council may adopt the budget with or without amendment. In amending the budget, it may add or increase programs or amounts and may delete or decrease any programs or amounts, except expenditures required by law or for debt service or for estimated cash deficit.

Council Adoption

The Council shall adopt the budget by resolution on or before the final day established by law for the certification of the ensuing year's tax levy to the county. If it fails to adopt the budget by this date, the amounts appropriated for the current operation for the current fiscal year shall be deemed adopted for the ensuing fiscal year on a month-to-month basis, with all items in it pro-rated accordingly, until such time as Council adopts the budget for the ensuing fiscal year.

Property Tax Levy

The City of Aspen's mil levy is adopted at a public hearing by resolution. The property tax mil levy establishes the amount of property tax that will be collected in the ensuing year. The City's general property tax (not including the Stormwater Fund mil levy or other levies created by referendum) is the only revenue source subject to the Tax Payers Bill of Rights "TABOR." In 1992, the voters of Colorado amended Article X of the Colorado Constitution to the effect that any tax increase resulting in the increase of governmental revenues at a rate faster than the combined rate of inflation and growth in property would be subjected to a popular vote in a referendum.

Public notice of the mil levy hearing is published at least seven (7) days prior to the hearing. The County's deadline for the certification of the tax levy is December 15th. See Section 9.9 of the Charter.

Public Records

Copies of the budget and the included capital program as adopted shall be public records and made available to the public in the municipal building and on the City's website at www.aspenpitkin.com.

Amendments after Adoption

Supplemental Appropriations

If during the fiscal year the City Manager certifies that there is funding available for appropriation, the Council by ordinance may make supplemental appropriations for the year. If additional appropriations are requested of council prior to a supplemental ordinance, Council may approve the expenditure and authorize spending prior to the ordinance. The Clerk's Department will provide to the Finance Department the memo presented to Council with the affirmative action by council with decision summary and stated dollar amount.

Emergency Appropriations

To meet a public emergency affecting life, health, property or the public peace, Council may make emergency appropriations. Such appropriations may be made by emergency ordinance in accordance with provisions of Section 4.11 of the Charter.

Reduction of Appropriations

If at any time during the fiscal year it appears probable to the City Manager that the funds available will be insufficient to meet the amount appropriated, the Manager shall report to Council indicating the estimated amount of the deficit, any remedial action taken by him and his recommendation as to any other steps to be taken. The Council shall then take such further action as it deems necessary to prevent or minimize any deficit and for that purpose it may by ordinance reduce one or more appropriations.

Transfer of Appropriations

Any time during the fiscal year the City Manager may transfer part or all of any unencumbered appropriation balance among programs within a Department or Fund. Transferring appropriation balance between Funds requires Council approval. The City Manager may give authority to Staff to authorize the transfer of unencumbered appropriations between line items within a Department or Fund. Unencumbered appropriations may be transferred from all line items without approval from the Finance Director except payroll. In order to transfer unencumbered appropriations dedicated to payroll, approval must be obtained from the Finance Director.

Capital project appropriations may not be moved from one project to another. Any appropriation balance within a project may not be used for any other purpose unless the City Manager gives authority to Staff to change the scope of the project or to move that budget authority to another expenditure account.

Limitation
No appropriation for debt service may be reduced or transferred and no appropriation may be reduced below any amount required by law to be appropriated or by more than the amount of the unencumbered balance thereof. The supplemental and emergency appropriation and reduction or transfer of appropriations authorized by this section may be made effective immediately upon adoption.

Administration of Budget

As required by Section 9.13 (c) of the Charter, a monthly budget report will be created to provide a snapshot of the City's budgetary and investment status for the current year. This report is intended as a policy-level document for overall review of the City's fiscal condition and how that condition relates to major budget issues. This report will be submitted to Council for review. In addition, it is intended for the use of City Staff with budget management responsibilities. This report will show the status of the revenue and expenditure compared to the current year's budget authority.

Independent Audit

An independent audit shall be made of all City accounts at least annually and more frequently if deemed necessary by Council. Such audit shall be made by certified public accountants, experienced in municipal accounting, selected by City Manager. Copies of such audit shall be made available for public inspection at the municipal building and on the City's website at www.aspenpitkin.com.

ASSETS

Capital Assets and Capitalization Threshold

The City qualifies a capital asset as having a cost of $5,000 or more, a useful life of one year or more and a use in operations and not for resale.

A capital asset is to be reported and depreciated in government-wide financial statements. In the government-wide financial statements, assets that are not capitalized are expended in the year of acquisition.

Infrastructure assets are long-lived capital assets that normally can be preserved for a greater number of years than most capital assets and are normally stationary in nature. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems and dams. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property.

The capitalization threshold is based on the cost of a single asset. Assets that do not meet the capitalization threshold will be recorded as expenditures.

Capital assets that meet the minimum capitalization threshold will be recorded at historical cost. The cost of a capital asset includes capitalized interest in accordance with GAAP and ancillary charges necessary to place the asset into its intended location and condition for use.

Classes of Assets

The City establishes the following major categories of capital assets:

- Land and Land Rights (including Water Rights)
- Land Improvements (Improvements other than Buildings)
- Buildings and Building Improvements
- Construction in Progress
- Vehicles
- Machinery and Equipment (Including Office Equipment)
- Infrastructure (Roads, Bridges, Trails, Drainage, Water, Sewer, Dams and Lighting Systems)

Capital Asset Costs

The City establishes the following as capital asset costs:

- Ancillary charges necessary to place the asset into its intended location and condition of use
- Ancillary charges include costs that are directly attributable to asset acquisition:
  - Freight and transportation charges
  - Installation costs
  - Site preparation costs
  - Professional fees (attorney, architect, surveyor, engineering and tap)
- Direct charges of staff time

When the City constructs housing projects that will be sold, Construction in Progress ("CIP") costs should be recorded in Fund 810 as "Assets Held for Resale." However to maintain consistency, the City will record these projects as CIP and then delete the CIP to offset sales proceeds when the units are sold. Each project should be analyzed to determine if City infrastructure is being constructed as part of the project.

Depreciation

In order to be depreciated, an asset must be classified as a capital asset. Capital Assets (excluding land) are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25 – 50 years
Infrastructure and Improvements other than Buildings	10 – 65 years
Machinery and Equipment	3 – 49 years

Asset Inventory

The City shall inventory all capital assets. An inventory of all assets is maintained in a database by the Finance Department. The inventory record will identify the responsible Department or Fund, in addition to description, year of acquisition, method of acquisition, funding source, cost or estimated cost, and estimated useful life.

The City shall assess the condition of all major capital assets. This information will be used to plan for the ongoing financial commitments required for major repairs or replacement to be funded.

Operation and Maintenance

Capital assets shall be maintained in working condition and properly safeguarded. These assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs. Budgets should provide sufficient funding for operations, maintenance, replacement and enhancements of capital assets.

A high priority will be placed on maintenance where deferral results in greater costs to restore or replace. Maintenance of existing capital assets should be given priority over acquisition of new assets unless the available funding cannot be used for maintenance of existing capital assets. The City will avoid deferral of scheduled capital maintenance to achieve a balanced budget.

INVESTMENT POLICY

Please see separate Investment Policy document attached as Exhibit A.

EXPENDITURE POLICIES

OVERVIEW

Expenditures are a rough measure of a local government's service output. While many expenditures can be easily controlled, emergencies, unfunded mandates and unanticipated service demands may strain the City's ability to maintain a balanced budget. The City is committed to ensure the proper control of expenditures and provide for a quick and effective response to adverse financial situations.

PAYMENTS AND OBLIGATIONS PROHIBITED

No payments shall be made or obligation incurred against any allotment or appropriation except in accordance with appropriations duly made and unless the manager first certifies that there is a sufficient unencumbered balance in such allotment or appropriation and that sufficient funds there from are or will be available to cover the claim or meet the obligation when it becomes due and payable. Any authorization of payment or incurring of obligation in violation of the provisions of this document shall be void and any payment so made illegal; such action shall be cause for removal of any officer who knowingly authorized or made such payment or incurred such obligation, and the officer shall also be liable to the City for any amount so paid. However, except where prohibited by law, nothing in this document shall be construed to prevent the making or authorizing of payments or making of contracts for capital improvements to be financed wholly or partly by the issuance of bonds or to prevent the making of any contract or lease providing for payments beyond the end of the fiscal year, provided that such act was made or approved by ordinance.

DEBT MANAGEMENT POLICY

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. Properly managed debt preserves the City's credit rating, provides flexibility in current and future operating budgets and provides the City with long-term assets that maintain or improve quality of life.

Limitation of Indebtedness

The City shall not become indebted for any purpose or in any manner in an amount which, including existing indebtedness, shall exceed twenty (20) percent of the assessed valuation of the taxable property within the City, as shown by the last preceding assessment for City purposes; provided, however, that in determining the limitation of the City's power to incur indebtedness there shall not be included bonds issued for the acquisition or extension of a water system or public utilities; or bonds or other obligations issued for the acquisition or extension of enterprises, works or ways from which the City will derive a revenue in accordance with Section 10.5 of the Charter.

Forms of Borrowing

The City may borrow money and issue the following securities to evidence such borrowing:

Short-Term Notes

The City, upon the affirmative vote of the majority of the entire Council, may borrow money without an election in anticipation of the collection of taxes or other revenues and to issue short-term notes to evidence the amount so borrowed. Any such short-term notes shall mature before the close of the fiscal year in which the money is borrowed.

General Obligation Bonds

No bonds or other evidence of indebtedness payable in whole or in part from the proceeds of general property taxes or to which the full faith and credit of the City are pledged, shall be issued, except in pursuance of an ordinance, nor until the question of their issuance shall, at a general election, be submitted to a vote of the electors and approved by a majority of those voting on the question; qualified electors of the City shall mean those duly qualified to vote at a general election in the City of Aspen unless the Council for sufficient reason shall by ordinance calling the election, restrict or limit such classification of electors to taxpaying electors as may be defined by ordinance adopted by the Council, provided, however, that such securities issued for acquiring utilities and rights thereto, or acquiring improving or extending any municipal utility system, or any combination of such purposes, may be so issued without an election.

Revenue Bonds

The City may borrow money, issue bonds or otherwise extend its credit for purchasing, constructing, condemning, otherwise acquiring, extending or improving a water, electric, gas or sewer system or other public utility or income-producing project provided that the bonds or other obligations shall be made payable from the net revenues derived from the operation of such system, utility or project and providing further that any two (2) or more of such systems, utilities and projects may be combined, operated and maintained as joint municipal systems, utilities or projects in which case such bonds or other obligations shall be made payable out of the net revenue derived from the operation of such joint systems, utilities or projects. Such bonds shall not be considered a debt or general obligation of the City for the purposes of determining any debt limitation thereof.

The City shall, in addition, have the authority to issue revenue bonds payable from the revenue or income of the system, utility or project to be constructed or installed with the proceeds of the bond issue, or payable in whole or in part from the proceeds received by the City from the imposition of a sales or use tax by the State of Colorado or any agency thereof.

No bond shall be issued until the question of their issuance shall, at a general election, be submitted to a vote of the electors and approved by a majority of those voting on the question.

Refunding Bonds

The Council may authorize, by ordinance, without an election, issuance of refunding bonds or other like securities for the purpose of refunding and providing for the payment of the outstanding bonds or other like securities of the City of the same nature or in advance of maturity by means of an escrow or otherwise.

Special or Local Improvement District Bonds

The City shall have the power to create local improvement districts and to assess the cost of the construction or installation of special or local improvements against benefited property within designated districts in the City by:

- Order of Council, subject, however, to protest by the owners of a majority of all property benefited and constituting the basis of assessment as the Council may determine.
- A petition by the owners of more than fifty (50) percent of the area of the proposed district provided that such majority shall include not less than fifty (50) percent of the landowners residing in the territory.

In either event, a public hearing shall be held at which all interested parties may appear and be heard. Right to protest and notice of public hearing shall be given as provided by Council by ordinance. Such improvements shall confer special benefits to the real property within said district and general benefits to the City. The Council shall have the power by ordinance to prescribe the method of making such improvements, of assessing the cost thereof and of issuing bonds for cost of constructing or installing such improvements including the costs incidental thereto. Bonds shall be authorized for issuance after approval by the registered electors in the district at a regularly scheduled election.

Where all outstanding bonds of a special or local improvement district have been paid and any monies remain to the credit of the district, they shall be transferred to a special surplus and deficiency fund and whenever there is a deficiency in any special or local improvement district fund to meet the payments of outstanding bonds and interest due thereon, the deficiency shall be paid out of said surplus and deficiency fund. Whenever a special or local improvement district has paid and cancelled three-fourths of its bonds issued and for any reason the remaining assessments are not paid in time to take up the remaining bonds of the district and the interest due thereon and there is not sufficient monies in the special surplus and deficiency fund, then the City shall pay said bonds when due and the interest due thereon and reimburse itself by collecting the unpaid assessments due from said district.

In consideration of general benefits conferred on the City from the construction or installation of improvements in improvement districts, the Council may levy annual taxes on all taxable property within the City at a rate not exceeding four (4) mils in any one year, to be disbursed as determined by the Council for the purpose of paying for such benefits, for the payment of any assessment levied against the City in connection with bonds issued for improvement districts or for the purpose of advancing monies to maintain current payments of interest and equal annual payments of the principal amount of bonds issued for any improvement district hereinafter created. The proceeds of such taxes shall be placed in a special fund and shall be disbursed only for the purposes specified herein, provided that in lieu of such tax levies, the Council may annually transfer to such special fund any available monies of the City, but in no event shall the amount transferred in any one year exceed the amount which would result from a tax levied in such year as herein limited.

<u>Long Term Installment Contracts, Rentals and Leaseholds</u>
In order to provide necessary land, buildings, equipment and other property for governmental or proprietary purposes, the City is hereby authorized to enter into long term installment purchase contracts and rental or leasehold agreements. Such agreements may include an option or options to purchase and acquire title to such property within a period not exceeding the useful life of such property and in no case exceeding forty (40) years. Each such agreement and the terms thereof shall be approved by an ordinance duly enacted by the City. The Council is authorized and empowered to provide for the payment of said payments or rentals from a general levy imposed upon both personal and real property included within the boundaries of the City, or by imposing rates, tolls and service charges for the use of such property or any part thereof by others, or from any other available municipal income or from any one or more of the above sources provided that nothing herein shall be construed to eliminate the necessity of voter approval of a tax or levy if otherwise required by this Charter. The obligation to make any payments or pay any rentals shall constitute an indebtedness of the City within the meaning of the Charter limitation on indebtedness. Property acquired or occupied pursuant to this Charter shall be exempt from taxation so long as used for authorized governmental or proprietary functions of the City. See Ordinance 12-1975.

FUND BALANCES AND OPERATING RESERVES

Adequate reserve levels are a necessary component of the City's overall financial management strategy and a key indicator of the City's financial health. A fund balance policy is necessary to ensure that City programs and current service levels are protected from changes in revenue growth or expenditure requirements. The GFOA recommends the establishment of a formal policy on the level of fund balance that should be maintained in the General Fund and encourages the adoption of similar policies for other types of Governmental Funds.

It is the policy of the City to maintain a reserve in the General Fund of no less than twenty five (25) percent of annual appropriated expenditures, including reoccurring transfers, at year end as identified in the LRP.

The first twenty (20) percent of the General Fund reserve may be drawn upon on recommendation of Staff with Council approval to compensate for an expected shortfall. Staff's recommendation to draw upon this reserve must include a replenishment schedule to begin within twelve months of the draw and result in full replenishment of the reserve requirement within thirty-six months of the draw.

It is the policy of the City to maintain a reserve in the Wheeler Opera House Fund of no less than twenty five (25) percent of annual appropriated expenditures, including reoccurring transfers, at year end as identified in the LRP.

The first twenty (20) percent of the Wheeler Opera House Fund reserve may be drawn upon on recommendation of Staff with Council approval to compensate for an expected shortfall. Staff's recommendation to draw upon this reserve must include a replenishment schedule to begin within twelve months of the draw and result in full replenishment of the reserve requirement within thirty-six months of the draw.

It is the policy of the City to maintain a reserve in all other City Funds except for the City Tourism

Promotion Fund, of no less than twelve and a half (12.5) percent of annual appropriated expenditures, including reoccurring transfers, at year end as identified in the LRP.

CARRYFORWARD SAVINGS

The purpose of allowing carryforward savings is to provide an additional incentive for frugality by operating departments. Unlike traditional governments, which have a "use it or lose it" approach to annual operating budgets, Aspen's policy encourages departments to create savings in their annual operating budgets. Savings in annual operating budgets are distributed as follows:

50% of the savings are carried forward into the appropriate department's savings account.
10% is allocated to a Central Savings account.
40% is returned to the appropriate fund balance.

Carryforward Savings represent 50% of the previous year's operating budget savings from individual Departments or Funds. Departments and Funds are allocated these amounts as a reward to finding efficiencies in their operations that allow them to meet their operating goals while spending less than their appropriations. Prior year savings that are not expended are maintained in full and appropriated every year unless directed otherwise by the City Manager. These appropriations can be spent on items related to the Department's or Fund's mission but may not be used for ongoing expenditures. In addition, if a particular expenditure was denied as part of the budget process, departmental savings may not be used for this purpose without City Manager approval. If the expenditure is to exceed $10,000, the City Manager must authorize the expenditure. Departments and Funds can accrue these savings to a maximum of 15% of their operating budgets.

Departments are expected to use their carryforward savings to fund small expenses needed to meet City Council's and citizen requests as is consistent with our "just say yes" management philosophy. In conjunction with the City's Outcome Measure program, the creation and use of operating savings is designed to emulate the incentives found in management of American small businesses. Department managers are expected to understand and measure their success in meeting customer expectations, and, through the carryforward savings program, have enough management flexibility to reasonably meet those expectations.

Central Carryforward Savings represents 10% of the previous year's operating budget savings from all Departments and Funds of the City. These appropriations are allocated to the City Manager's office for use in addressing issues with city-wide implications or to address unusual but necessary departmental expenses.

REVENUE POLICIES

The City maintains a balanced and diversified revenue structure to protect the City from fluctuations in any one source due to changes in local economic conditions, which may have an adverse impact. In order to maintain a stable level of services, the City shall use a conservative, objective and analytical approach when preparing revenue estimates. The process includes an analysis of probable economic changes and their impacts on revenues, historical collection rates and trends in revenue shortfalls.

To ensure the City's revenues are balanced and capable of supporting the desired levels of services, the City has adopted the following revenue policy statements:

- Revenue forecasts shall be conservative, using generally accepted forecasting techniques and appropriate data.
- Each year, major revenues will be projected for at least the next ten (10) years.
- The City will establish and maintain revenue sources that are diversified. Highly variable revenue sources shall be earmarked for uses that are flexible in timing and/or discretionary in need.
- Each year and whenever appropriate, existing revenues will be re-examined and possible new sources of revenues will be explored to ensure that the City is balancing its revenue potential.
- Each year and whenever appropriate, intergovernmental revenues will be reviewed to determine their short and long-term stability, to minimize the impact of any adverse changes. Intergovernmental revenues shall be used as legally prescribed or otherwise set forth by policy.
- One-time revenues shall be used only for one-time expenditures and will not be used to authorize on-going expenditures or programs.
- The City will carefully and routinely monitors any amounts due. An aggressive policy of collection will be followed for all receivables, including taxes and fees. The City will fairly and uniformly administer the provisions of all tax and fee ordinances among citizens and businesses. This includes businesses located outside the City limits, but making regular deliveries into the City, home occupations, seasonal vendors and individual owners of short term rental accommodations.
- Each year and whenever appropriate, the City will review its schedule of fees and related administrative procedures. The amount of a fee shall not exceed the overall cost of providing the facility, infrastructure or service for which the fee is imposed. In calculating that cost, direct or indirect costs may be included. That includes costs that are directly related to the provision of the service and support costs that are more general in nature but provide support for the provision of service. The City reviews all fees for licenses, permits, fines and other miscellaneous charges as part of the annual budgetary process.

For programs where the City subsidizes operations, the revenues will be sufficient for the minimum stated recovery rate and/or dollar amount of subsidy. The recovery rate is defined as revenue as a percent of expenditures. The dollar subsidy is defined as expenditures less revenue.

INVESTMENT POLICY
December 2009

I. Purpose

The purpose of this investment policy is to provide a guideline by which the funds that are not otherwise needed to meet the cash flow demands of the City of Aspen (the City) can best be invested. The objective of the investment portfolio is to earn the highest return for the City within the risk guidelines designed to provide maximum security, while maintaining sufficient liquidity to meet fluctuations in the City's cash flow needs.

II. Scope

This investment policy applies to all financial assets of the City as identified in the City's Comprehensive Annual Financial Report and all funds managed for the benefit of the Aspen Pitkin County Housing Authority (APCHA).

Investment income will be allocated to the various funds of the City and APCHA based upon their respective participation and in accordance with generally accepted accounting principles. Interest will be allocated on a monthly basis.

III. Standards of Care

1. **Prudence:** 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. The standard of prudence to be used is Standard IV A.1 of the Standards of Practice Handbook of the Association for Investment Management and Research (Appendix A). The Finance Director or his designee must exercise diligence and thoroughness in making investment recommendations or in taking investment actions; have a reasonable and adequate basis, supported by appropriate research and investigation, for such recommendations or actions; make reasonable and diligent efforts to avoid any material misrepresentation in any research report or investment recommendation; and maintain appropriate records to support the reasonableness of such recommendations or actions. The investment officer shall be relieved of personal responsibility for an individual security's credit risk or market price changes if he/she has acted in accordance with written procedures and the investment policy.

2. **Ethics and Conflicts of Interest:** The standard governing Ethics and Conflicts of Interest shall be Standard III(C) of the Standards of Practice Handbook of the Association for Investment Management and Research (Appendix B). The Finance Director, investment officer, or other must disclose to the City all matters, including beneficial ownership of securities or other investments that reasonably could be expected to interfere with their duty to the City or ability to make unbiased and objective recommendations. The receipt of gifts, gratuities, and travel expenses is governed by the guidelines of the Ethics Policy as adopted by the Aspen City Council on what they or other City Staff may accept from securities dealer firms.

3. **Assignment of Responsibilities:** Article VI, Section 6.8 of the Charter of the City of Aspen grants authority and ultimate responsibility for the investment management activities of the City to the Finance Director. The Finance Director may designate any of the investment functions to another officer of the City (Investment Officer). The Finance Director shall establish written

policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to; safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director will establish the day-to-day operating procedures for conducting the City's investment activities. He or she will be responsible for understanding the risks of the Investment Portfolio and establish the risk measurement and management process. In addition, he or she is responsible for making certain that a system of checks and balances is in place between the purchase/sale decision-making process and the settlement/reconcilement functions. In order to facilitate the evaluation of the investment activities, the Finance Director may employ outside vendors to make periodic appraisals of the City's investment program or to suggest specific investment alternatives. The Finance Director or his/her designee is authorized to execute security transactions for the City's Investment Portfolio within the limitations established by this policy. Should unexpected market conditions arise, the Finance Director or his designee may approve a transaction, which would not be in accordance with the Investment Policy but is necessary to protect the safety and liquidity of the City's investment portfolio, and is guided by Section III.1 of this policy. Such transactions must be reported to the City Council at their next meeting. All securities transactions will be made in accordance with the City's overall interest rate risk profile and policy. Liquidity needs/constraints will also be taken into account when investment decisions are made.

IV. Objectives

1. **Safety** of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall investment portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities and security types offering independent returns and financial institutions.
2. **Liquidity** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which may be reasonably anticipated. A prudent reserve shall be maintained to meet unanticipated cash requirements.
3. **Return on Investments** The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

V. Safekeeping and Custody

1. **Authorized Financial Dealers and Institutions** The Finance Director or designee will maintain a list of authorized securities firms that have been approved by City Council, through a Request for Proposal process, in accordance with the City's Procurement Code for Contract Formation. This list will include the established limits on unsettled trades, safekeeping arrangements, repurchase agreements, securities lending and borrowing, total credit risk with dealer, and any other transaction with default risk. This list of authorized securities dealers and their established limits will be reviewed annually, by Finance Staff. The Finance Director or designee will be responsible for obtaining sufficient knowledge about securities firms and personnel. Files will be maintained for all firms with which the City transacts investment business. These files will include:

   a) Financial data, annual reports and credit reports.
   b) The background data of the dealer's sales representative(s) with whom business will be conducted.
   c) Any information available from State or Federal regulators or securities industry self-regulatory organizations concerning any formal enforcement actions against the dealer, its affiliates, or associated personnel.
   d) No public deposit shall be made except in a qualified public depository as established by Colorado law.

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

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

   a) Control of collusion
   b) Separation of transaction authority from accounting and recordkeeping
   c) Custodial safekeeping
   d) Avoidance of physical delivery securities
   e) Clear delegation of authority to subordinate staff members
   f) Written confirmation of transactions for investments and wire transfers
   g) Development of a wire transfer agreement with the lead bank and third-party custodian

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

VI. Performance Standards

1. **Benchmark** The City's investment strategy is active. Given this strategy, the basis used by the Finance Director to determine whether market yields are being achieved shall be to identify a comparable benchmark to the investment portfolio. Examples of benchmark rate return are the 90 day US Treasury Bill, 6 month US Treasury Bill or the average Federal Funds Rate.

2. **Reporting** Consistent with the City Charter, the Finance Director will provide monthly investment reports, to the City Manager and City Council, which provide a clear picture of the status of the current investment portfolio. The report should include comments on the fixed income markets and economic conditions, discussions regarding percentages of investments by categories, possible changes in portfolio structure and strategy going forward.

VII. Statutory Investment Guidelines (Statute: Section 24-75-601, C.R.S.)

1. Custody of Investment Securities Unless otherwise stated, all investments must be held in the City's name, or in the custody of a third party on behalf of the City, or in a custodial account with an eligible public depository or securities firm on behalf of the City.

2. Maximum Maturity The maximum maturity date for all securities shall be no more than five years from the date of purchase unless otherwise authorized by the City Council, with exceptions noted under limitations included in Section VII, 4 of this policy.

3. Coupon Rate Fixed at Settlement Public funds shall not be invested in any security on which the coupon rate is not fixed from settlement until maturity, other than shares in qualified money market mutual funds, unless the coupon rate is established by reference to specified rate indices, such as the U.S. dollar London interbank offer rate ("LIBOR") of one year or less, or the rate for a U.S. Treasury security with a maturity of one year or less, or the rate of a municipal bond index, or to the cost of funds index, or the prime rate. (Section 24-75-601.1(1.3), C.R.S.)

4. Legal Investments of Public Funds (Statute: Section 24-75-601.1, C.R.S.)

a) U.S. Treasury Bills and Notes
b) Federal Farm Credit Bank
c) Federal Land Bank
d) Federal Home Loan Bank
e) Federal Home Loan Mortgage Corporation
f) Federal National Mortgage Association (FNMA)
g) Export-Import Bank
h) Government National Mortgage Association (GNMA)
i) Obligations of any other U.S. agency if control of agency by U.S. is at least as extensive as those investments mentioned above. Security must have highest rating category of at least one recognized rating agency at time of purchase.

j) Obligations of the World Bank, Inter-American Development Bank, Asian Development Bank, and the African Development Bank. Security must have one of two highest rating categories of at least one nationally recognized rating agency at time of purchase.
k) G.O. Bonds of any state, District of Columbia, U.S. Territory, or any of their subdivisions. (This includes the State of Colorado and its related entities and Colorado Local Governments and their related entities.) Security must have one of three highest rating categories of at least one nationally recognized rating agency at time of purchase. The Colorado investments may have a maturity in excess of five years.
l) Revenue Bonds of any state, the District of Columbia, a U.S. Territory, or any of their subdivisions. Security must have one of two highest rating categories of at least one nationally recognized rating agency at time of purchase.
m) Bankers Acceptance issued by a state or national bank. The bank must have combined capital and surplus of at least $250,000,000. Deposits must be FDIC insured. The bank's long-term debt must have one of three highest ratings of at least one nationally recognized rating agency at time of purchase.
n) Commercial Paper. Security must have the highest rating from at least one nationally recognized rating agency at time of purchase.
o) Any obligation, certificate of participation, or lease-purchase of the City of Aspen.
p) Any interest in any local government investment pool pursuant to Section 24-75-701, et seq., C.R.S. See below.
q) Repurchase Agreements in securities listed in a) through i). Securities of the U.S. Government or its agencies as listed above which must have a coupon rate that is fixed from the time of settlement until its maturity and must be marketable. Market value must at all times be at least equal to funds invested. Title or perfected security interest in securities must be transferred to the City or custodian. Securities must be actually delivered to the City or third-party custodian or trustee for safekeeping. Collateral securities must be collateralized at no less than 102% and marked to market no less than weekly. These investments may have a maturity in excess of five years. A master repurchase agreement must be signed with the bank or dealer.
r) Money Market Funds Must be registered as investment company. Fund investment policies include seeking to maintain a constant share price. No sales or load fee can be added to the purchase or redemption price. The fund invests only in securities that have a remaining maximum maturity as specified in rule 2a-7 of the federal "Investment Company Act of 1940," as long as such rule or amendment to it does not increase the maximum remaining maturity to a period greater than three years. The fund has assets of $1 billion or more, or has the highest credit rating from one or more nationally recognized rating agency. If the fund has assets of less than $1 billion or has a rating less than the highest credit rating from one or more nationally recognized rating agencies, then the fund's investments must consist only of securities listed a) through q) above; or perfected reverse repurchase agreements of less than 30 days relating to securities listed in a) through p) above; or securities not listed in a) through q) above that are tax-exempt if these do not exceed 15 percent of the investments of the fund; and the dollar-weighted average portfolio maturity of the fund meets the requirements of rule 2a-7 or amendments to it, so long as such rule or

amendment to it does not increase the dollar-weighted average portfolio maturity to a period greater than 180 days.

s) U.S. dollar-denominated corporate or bank debt. Must be issued by a corporation or bank organized and operated within the United States with a net worth in excess of $250,000,000; the notes must mature within three years and must carry at least two credit ratings not below “AA- or Aa3" from any nationally recognized credit rating agency; the book value of investment in this type of debt shall at no time exceed 30 percent of the book value of the City’s investment portfolio, or 5 percent of the book value of the City’s investment portfolio if the notes are issued by a single corporation or bank.

t) A securities lending agreement using securities authorized in a) through i). Must be entered into with a qualified provider that provides and maintains collateral with a mutually agreed upon custodian. Such collateral shall be in the form of cash or securities that are authorized investments for the public entity and have a value equal to 102% of the value of the securities lent by the public entity plus accrued interest. Corporate securities collateral shall have a value equal to 105% of the value of securities. Either the custodian or the qualified provider if verified by the custodian marks to market daily the value of the collateral. If all of the collateral is cash, the difference in valuation need only be resolved if the collateral is less than 100% of the value of the securities. A minimum of 20% of investments purchased with cash collateral matures or is redeemable on any business day; an instrument guaranteed by the US government that has a variable interest rate set off of a money market index readjusted every 95 days has a maturity equal to the period remaining until the next readjustment of the interest rate; instrument issued by a corporation that has a variable rate of interest set off of a money market index readjusted every 95 days has a final maturity 30 days or an unconditional put back to the issuer 95 days; the maturity of fixed rate investments or repurchase agreements does not exceed 190 days; the investment maturity or reset date is not greater than 95 days. The securities lending agreement is approved and designated by written resolution duly adopted by a majority vote of the City Council, which resolution shall be recorded in its minutes.

VIII. **Collateralization** will be required on purchases of certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of par value of principal and accrued interest. Collateral will be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership must be supplied to the City and retained.

IX. **Liquidity** is the ability to generate cash at a reasonable cost to meet both expected and unexpected demand for funds from both the City and its vendors without disrupting routine operations or raising adverse questions from funds providers. Maintaining adequate liquidity is essential when conducting normal municipal activity and when providing for potential emergency situations.

The City's liquidity position is measured by its capacity to generate funds. Adequate capacity is demonstrated by the ability to raise sufficient levels of cash promptly and at a reasonable cost.

This can be accomplished through disposing of liquid assets, increasing short-term borrowing, issuing additional liabilities, decreasing holdings of non-liquid assets, increasing longer-term liabilities, or raising taxes. The goal is to maintain an adequate level of liquidity without impairing the long-term efficient use of the City's assets.

1. **Measurement** Since no single ratio can define adequate liquidity, the Finance Department will study several ratios to construct the most accurate picture of the state of the City's liquidity position. It is the City's intention to balance the need for liquidity with the need for interest income. The following are measures to assess trends in liquidity:

   In order to plan for and manage seasonal liquidity needs, liquidity measures will be monitored monthly. The Finance Director or designee will look at cash flows going forward and prepare best/worst case scenarios for funds necessary to meet the City's obligations.

   On a daily basis, the Finance Director or designee will review local and national economic factors that may affect the City's liquidity or funding needs. This review will include changes to the local economy, interest rate environment, local employment projections, and projected population changes.

2. **Administration** The liquidity ratios are to be monitored at least monthly (if not weekly or daily). This will ensure that the City has adequate liquidity at all times and assist the Finance Director or designee in assessing trends which could adversely affect the liquidity of the City.

3. **Sources of Liquidity** The City's primary sources of liquidity are listed below:
   a) Available Cash Balances.
   b) Money Market Funds. Excess liquidity will be placed in Money Market Funds in compliance with and monitored under the Investment Policy.
   c) Maturing securities. The City will ladder its Investment Portfolio to make certain that securities are maturing in accordance with anticipated cash flow needs. The Finance Director or designee will be responsible for establishing a maturity ladder appropriate for the City.
   d) Investment Portfolio. Securities will be monitored for market value changes to identify viable options to be liquidated for liquidity needs.
   e) Maximum Maturities. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. However the City may collateralize its repurchase agreements using longer-dated investments not to exceed ten years to maturity.

      Reserve funds may be invested in securities exceeding ten years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

4. **Liquidity Contingency Plan** In the event that the Finance Director or designee anticipates changes in normal municipal operations, it must respond to potential liquidity problems in a

thorough and organized manner. By developing a liquidity contingency plan, the City will be able to deal with a potential or real liquidity problem.

Asset and liability management procedures should be followed to ensure that adequate cash sources are available and that minimal cash outflows occur. Also, any measures taken to manage liquidity should be in accordance with the parameters regarding interest rate risk.

In the event of a liquidity shortfall, the City will generate cash to meet its obligations by undertaking one or all of the following steps (in this order):

a) Utilize Available Cash Balances. Liquidate money market positions
b) Utilize funds from maturing investments
c) Liquidate investments provided their market value is close to book value

The City Manager and City Council must be informed of any liquidity shortfall and provided with the details of the contingency plan.

5. Other Considerations

The liquidity management of the City must be made in harmony with the City's Interest Rate Risk Management processes. Any liquidity funding decisions made will directly affect the City's interest rate risk profile. The potential liquidity management decisions should be considered when evaluating the interest rate risk profile of the City.

As mentioned above, the City's Investment Portfolio will be laddered to have sufficient maturities to match off against potential maturing liabilities. On an ongoing basis, the Investment Portfolio will be managed within the parameters of both the investment policy and the liquidity management needs of the City.