City of Emporia, VA

Financial Policy Guidelines

Adopted by City Council
October 21, 2014

Contents

1. Financial Policy Objectives

This financial policy is a statement of the guidelines and goals that will influence and guide the management practice of City of Emporia, Virginia. Financial Policy Guidelines that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Effective Financial Policy Guidelines:

- Contribute significantly to the City's ability to insulate itself from fiscal crisis,
- Enhance short-term and long-term financial credit of the City by helping to achieve the highest credit and bond ratings possible,
- Promote long-term financial stability by establishing clear and consistent guidelines,
- Direct attention to the total financial picture of the City rather than single issue areas,
- Promote the view of linking long-run financial planning with day-to-day operations, and
- Provide the City Council and the citizens with a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

While adherence to this policy is expected, the City understands that changes in the capital markets, City programs, or other unforeseen circumstances may from time to time produce situations that are not covered by this policy and will require modifications or exceptions to achieve the policy goals. In these cases, the City's management may act, provided specific authorization from the City Council is obtained. These Financial Policy Guidelines shall be reviewed at least every two years by the City Manager and Director of Finance, who shall in turn report their findings to City Council.

2. Capital Improvement Budget Policies

The City will develop a five-year Capital Improvement Plan which will serve as the basis for planning and prioritizing the City's capital improvement needs based on affordability and compliance with Debt and Reserve Policies. The Capital Improvement Plan will only include projects with identified and known realistic funding sources. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.

1. The City will consider all capital improvements in accordance with an adopted Capital Improvement Plan.

2. The City will develop a five-year Capital Improvement Plan that includes funding sources and uses and review and update the plan annually.

3. The City will enact an Annual Capital Budget based on the five-year Capital Improvement Plan. The first year of the Capital Improvement Plan will be used as the basis for the Annual Capital Budget.

4. The City will coordinate development of the Annual Capital Budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

5. The City will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

6. The City will project its equipment replacement and maintenance needs in conjunction with the five-year Capital Improvement Plan and will develop a maintenance and replacement schedule to be followed.

7. The City will attempt to determine the least costly and most flexible financing method for all new projects.

3. Budget Development Policies

1. The City will strive to maintain diversified and stable revenue streams to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services.

2. Current revenues will fund current expenditures. One-time or other special revenues will not be used to finance continuing City operations but instead will be used for funding special projects.

3. The City will pursue an aggressive policy seeking the collection of delinquent utility, license, permit and other fees due to the City.

4. The City will prepare and annually update a long-range (5 year) financial forecast model utilizing trend indicators and projections of annual operating revenue, expenditures, capital improvements with related debt service and operating costs, and fund balance levels.

5. The City Manager and Director of Finance shall review expenditure and revenue projections quarterly and provide to City Council. The City Manager and Director of Finance will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget. Budget requests after the budgetary process and adoption of the annual budget shall be considered in the next budget cycle, unless such request is deemed an emergency or provides a material benefit (i.e. grant matching funds or other similar items) that affects the operations of the City government.

4. Debt Policies

These debt policies are designed to provide guidance to the City of Emporia and its operating units in the issuance of debt and similar obligations that may be supported by either the City's general obligation or moral obligation.

1. The City will limit long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.

2. When the City finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.

3. The debt policy is to be used in conjunction with the Adopted Budget, the Capital Improvement Program and other financial policies.

4. If the City has or obtains credit ratings from one or more of the nationally recognized Credit Rating Agencies (Moody's Investors Service, Standard & Poor's or Fitch Ratings), the City will maintain regular and good communication with the Credit Rating Agencies about its financial condition and will provide requested information in a timely manner. The City will follow a policy of full disclosure on every financial report and in Official Statements related to bond issues.

5. Whenever feasible, similar debt obligations will be issued at one time to minimize issuance costs.

6. Debt Issuance shall be governed by the following policies:

   A. General Obligation Indebtedness:

      i. General Obligation Indebtedness may be issued for general tax supported capital projects and utility revenue supported capital projects.

      ii. It is understood that the City's outstanding General Obligation indebtedness is subject to the Virginia Constitutional limitation of 10% of Taxable Assessed Valuation of Real Estate.

B. Capital Leases:

i. The City may issue short-term notes or capital leases to purchase buildings, machinery, equipment, furniture and fixtures.

C. Moral Obligation or other Off-Balance Sheet Indebtedness:

i. The City may provide its Moral Obligation for the payment of debt incurred by other agencies and agree to pay related debt service when revenues of such agencies may prove insufficient to cover related debt service.

ii. Moral Obligation and/or other off balance sheet indebtedness may be incurred when shown to be in the best interest of the City.

D. Revenue Bond Indebtedness:

i. The City may issue Revenue Bonds to fund enterprise activities such as water and sewer utilities or for other capital projects which will generate a revenue system for the repayment of Revenue Bonds.

ii. The Revenue Bonds will include written covenants which will require that the revenue sources are sufficient to fund the debt service requirements.

iii. So long as such Revenue Bonds are demonstrated to be self-supporting and repaid from pledged revenue sources, such Revenue Bonds shall be excluded from the policies in paragraphs 7 and 8 below.

7. The ratio of Direct Net Tax Supported Debt Service expenditures as a percent of Total Governmental Fund Expenditures should not exceed 12%. Direct Net Tax Supported Debt Service is defined as any and all General and Moral Obligation and/or off balance sheet debt service that is tax-supported. Utility Fund G.O. and/or Revenue Bond debt service that is self-supporting shall be excluded. This ratio will be measured annually.

8. Payout of aggregate outstanding tax-supported Direct Net Debt principal shall be no less than 50% repaid in 10 years.

9. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition. The City will regularly analyze total indebtedness including underlying and overlapping debt.

10. Where feasible, the City will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.

5. Reserve Policies

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain fund balance reserves sufficient to fund all cash flows of the City, to provide financial reserves for unanticipated or emergency expenditures and/or revenue shortfalls, and to provide funds for all existing encumbrances.

The purpose of this policy is to specify the composition of the City's financial reserves, set minimum levels for certain reserve balances, and to identify certain requirements for replenishing any fund balance reserves utilized.

General Fund Balance

1. Fund Balance Categories:

   For documentation of the City's fund balance position, communication with interested parties and general understanding, a clear and consistent system of classification of the components of the City's fund balances is necessary. The City's reporting and communication relating to fund balance reserves will utilize the classifications outlined in generally accepted accounting principles (GAAP). GAAP dictates the following hierarchical fund balance classification structure based primarily on the extent to which the City is restricted in its use of resources.

   A. Non-spendable Fund Balance: These are fund balance amounts that are not in a readily spendable form, such as inventories or prepayments, or trust or endowment funds where the balance must remain intact.

   B. Restricted Fund Balance: These are amounts that have constraints placed on their use for a specific purpose by external sources such as creditors, or legal or constitutional provisions.

   C. Committed Fund Balances: These amounts are designated for a specific purpose or constraints have been placed on the resources by City Council. Amounts within this category require City Council action to commit or to release the funds from their commitment.

   D. Assigned Fund Balances: These are amounts set aside with the intent that they be used for specific purposes. The expression of intent can be by City Council or their designee and does not necessarily require City Council action to remove the constraint on the resources.

   E. Unassigned Fund Balances: These are amounts not included in the previously defined categories. The City General Fund is the only fund that should report a positive Unassigned Fund Balance. Amounts in this classification represent balances available for appropriation at the discretion of City Council. However, City

Council recognizes that the Unassigned Fund Balance needs to be sufficient and comprised of liquid cash and investments to meet the City's cyclical cash flow requirements and allow the City to avoid the need for short term tax anticipation borrowing. The Unassigned Fund Balance should also allow for a margin of safety against unforeseen expenditures that could include, but not be limited to, natural disasters, severe economic downturns, and economic development opportunities. Unassigned Fund Balance shall not be used for annual recurring expenditures, except for unforeseen emergency circumstances.

i. The Unassigned Fund Balance shall, at a minimum, be an amount that is sufficient to avoid the use of annual cash flow Revenue Anticipation Note borrowings.

ii. The City's Unassigned Fund Balance shall not be less than 35% of Total General Fund Budgeted Expenditures (the "Policy Goal").

iii. City Council recognizes that if amounts above the 35% Policy Goal exist, City Council could contemplate strategically utilizing these amounts, if appropriate. However, City Council also recognizes that maintaining an Unassigned Fund Balance above the Policy Goal may beneficial to the overall well-being of the City. Should any amounts above the 35% policy exist they should only be appropriated for non-recurring expenditures. Amounts above the 35% policy minimum could be used for the following purposes (listed in order of priority):

   a. Increase Restricted Fund Balances as necessary.

   b. Fund an additional reserve for use during an emergency or during periods of economic uncertainty or budget adversity. Such additional reserves shall be determined by City Council.

   c. Allocating such amounts toward equity funding of the Capital Improvement Plan or transfer to the Capital Improvement Fund.

2. Prioritization of Fund Balances:

As indicated, the fund balance classifications outlined above are based on the level of restriction. In the event expenditures qualify for disbursement from more than one fund balance category, it shall be the policy of City of Emporia that the most constrained or limited fund balance available will be used first. Unassigned fund balance will be used last.

3. Accounting for Encumbrances:

Amounts set aside for encumbered purchase orders may be either restricted, committed or assigned fund balance depending upon the resources to be used to fund the purchases. Amounts set aside for encumbrances may not be classified as unassigned since the creation of an encumbrance signifies a specific purpose for the use of the funds.

4. Replenishment of the Unassigned Fund Balance

Upon the use of any Unassigned Fund Balance, which causes such fund balance to fall below either the Policy Goal, City Council must approve and adopt a plan to restore amounts used within 24 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the City, then the City Council will establish a different time period.

Utility (Water and Sewer) Enterprise Fund Balance

1. Unrestricted Days Cash on Hand

Unrestricted Days Cash on Hand of the City's Utility Enterprise Fund shall be sufficient to maintain operations without ongoing support from the General Fund. The City shall maintain a range of 225 to 275 Days Cash on Hand.

6. Investment Policy

An investment policy is designed to serve as a guideline from which all City deposits and investments will be managed. In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the policy of the City that all investable balances be invested with the same care, skill, prudence and diligence that a person would exercise when undertaking an enterprise of like character and aims under circumstances prevailing at that time.

Unless otherwise specifically referenced, all investment actions, controls and reporting shall be the responsibility of the Treasurer's Office with the exceptions to the policy to be properly documented, approved in writing by the Treasurer and communicated to the City officials. Any modification to this policy shall require the approval of the Treasurer and City Council. It is recognized that the Treasurer is an elected official whose responsibilities are delineated by the Code of Virginia and that this policy is meant to illustrate strong fiscal management of a City and not to circumvent the powers of the constitutional officer. This policy is based on guidelines established in the State Code, and is used regarding compliance on investments.

1. Investment Objectives

   The primary investment objectives for all assets and/or asset groups shall be:

   a. Safety – Safety of principal is the foremost objective of the investment of City funds. Investments in all asset groups shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

   b. Liquidity – Each investment/investment portfolio will remain sufficiently liquid to enable it to meet all operational requirements, which might be reasonably anticipated.

   c. Return on Investment – Each investment/investment portfolio shall be managed to maximize the return on investments within the context and parameters set forth by objectives (a) and (b) above.

2. Standards of Care

   a. Standard of Prudence – Investments shall be made with judgment and care, under the 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 first the safety and liquidity of capital and next the probable income to be derived.

   b. Ethics and Conflicts of Interest – City employees and investment officials involved in the investment process shall refrain from personal business that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interest in financial institutions with which they conduct business, and they shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same broker or account representative with whom business is conducted on behalf of the City.

2. Safekeeping/Delivery of Investments

In accordance with the Section 2.2-4515 of the Code of Virginia: All investment securities purchased by the City shall be held in third-party safekeeping at a qualified public depository that may not otherwise be a counterparty to the investment transaction. (A qualified public depository is defined under Virginia law as a national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings institution organized under Virginia law that receives or holds public deposits which are secured pursuant to Section 2.2-4400 of the Code of Virginia (the "Virginia Security for Public Deposits Act").

All securities in the City's portfolio shall be held in the name of the City and will be free and clear of any lien. All investment transactions will be conducted on a delivery-vs-payment basis. The depository shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the depository will also provide reports that list all securities held for the City, the book value and the market value as of month end.

Appropriate City officials and representatives of the depository responsible for or in any manner involved with the safekeeping and custody process of the City shall be bonded in such a fashion as to protect the City from losses from malfeasance and misfeasance.

Securities purchased for the City shall be held by the Treasurer or the City's designated custodial agent. Securities held by a custodial agent shall be recorded in name of the City on the custodian's records. If a custodial agent is used, a written agreement defining the responsibilities of the agent and the custodial agent shall not be a counterpart to purchase of securities held by the custodial agent. This shall not apply to investments with a maturity of less than thirty-one calendar days.

Collateral for savings and time deposits shall be pledged according to the provisions of the Virginia Security for Public Deposits Act and the requirements of the state Treasury Board regulations.

3. Authorized Investments

Unless otherwise stated in this section the City may not invest in any security not specifically authorized by this policy. To the extent permitted by law, the City may invest in the following types of securities:

a. United States Treasury Obligations – Bonds, notes and bills issued by the United States Treasury or certificates representing ownership of treasury bond principal or coupons.

b. Agency Securities (FHLB, FNMA, FFCB, FHLMC) – Fixed rate obligations issued and guaranteed as to principal and interest by the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank or Federal Home Loan Mortgage Corporation.

c. Prime Commercial Paper – Commercial Paper maturing within 270 days of the date of purchase with at least two of the following ratings: P-1 or higher by Moody's, A-1 or higher by Standard & Poor's, F-1 or higher by Fitch, provided that the issuing corporation (or guarantor) has a net worth of at least $50 million, average net income of $3 million for the past 5 years and a long-term debt rating of A or better by at least two of the following National Credit Rating Agencies: Moody's, Standard & Poor's or Fitch.

d. Certificates of Deposit – Certificates of Deposit (CD) maturing within one year and issued by domestic banks rated P-1 or higher by Moody's AND A-1 or higher by Standard & Poor's. For CD's maturing from 1 to 5 years the bank must be rated Aa or higher by Moody's AND AA or higher by Standard & Poor's. Funds must be secured in the manner required by the Virginia Security for Public Deposits Act.

e. Banker's Acceptances – Banker's Acceptances maturing within 180 days rated P-1 or higher by Moody's AND A-1 or higher by Standard & Poor's, provided that the issuer is a major domestic bank or the domestic office of an international bank rated Aa or higher by Moody's AND AA or higher by Standard & Poor's.

f. Commonwealth of Virginia and Virginia Local Government Obligations – General Obligation bonds maturing within 5 years from date of purchase and rated AA or higher by at least two of the following National Credit Rating Agencies: Moody's, Standard & Poor's or Fitch.

g. Repurchase Agreements – Repurchase Agreements collateralized by securities listed in items (a) and (b) above. The collateral on overnight, one day, or longer-term repurchase agreements is required to be at least 102% of the value of the repurchase agreement. Structured notes are not permitted collateral. Collateral must be marked to market weekly with option to liquidate if deficiency is not corrected. The counterparty must be rated A or higher by Moody's AND Standard & Poor's and insured by FDIC, or is a Broker-Dealer subject to SIPC protection.

h. Open-End Investment Funds (Mutual Funds) – Open-end investment funds (mutual funds) which trade on a constant net asset value and are registered under the Securities Act of the Commonwealth of Virginia or the Federal Investment Co. Act of 1940 and which invest solely in instruments otherwise permitted under items (a) through (g) above.

i. Virginia Local Government Investment Pool – The pooled fund known as the Virginia Local Government Investment Pool ("LGIP") as provided for in Section 2.2-4600 of the Code of Virginia.

j. Virginia State Non-Arbitrage Program.

4. Maturity Restrictions

To the extent possible, the City of Emporia shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Emporia will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds and other funds with longer-terms investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.