

FINANCE COMMITTEE AGENDA

**Tuesday, March 22, 2016
11:30 a.m.**

GENERAL BUSINESS

11:30 a.m.

1. Approval of the Draft Finance Committee Meeting Notes from February 23, 2016

Contact: Donna Witt, Director of Financial Services 455-3968

11:35 a.m.

2. Report on the General Fund Reserve for Contingencies

Contact: Donna Witt, Director of Financial Services 455-3968

11:40 a.m.

3. Consider a request to adopt a resolution to amend the FY 2016 City/Federal/State Aid Fund budget and appropriate \$75,000 with resources from the 2015 State Homeland Security Program (SHSP) grant from U.S. Department of Homeland Security (DHS) to fund replacement of aged equipment for Technical Rescue Teams.

Contact: Fire Chief Brad Ferguson 455-6340

11:45 a.m.

4. Approve the submittal of a grant application to the Virginia Department of Fire Programs Regional Fire Services Training Facilities Grant (RFSTF) for \$38,500 to purchase a Flashover Simulator.

Contact: Fire Chief Brad Ferguson 455-6340

11:50 a.m.

5. Review highlights of the attached quarterly financial report for the Greater Lynchburg Transit Company (GLTC) for the quarter ending December 31, 2015.

Contact: Josh Baker, General Manager - GLTC 455-5080

11:55 a.m.

6. Consider a request to review, amend and reaffirm the City's Financial Management Policies.

Contact: Donna Witt, Director of Financial Services 455-3968

12:10 p.m.

7. Review collections received from five of the City's largest revenue sources.

Contact: Donna Witt, Director of Financial Services 455-3968

12:15 p.m.

8. Roll Call

The next Finance Committee meeting is Tuesday, April 26, 2016, at 11:30 a.m.

FINANCE COMMITTEE NOTES-- DRAFT
Tuesday, February 23, 2016

GENERAL BUSINESS

Meeting commenced at 11:30 a.m.

ATTENDEES

Committee Members: Councilmember Jeff S. Helgeson, Chairman; Councilmember Randy Nelson; Councilmember Treney Tweedy; Mayor Michael A. Gillette, Ex-Officio

Others: Kim Payne, City Manager; Bonnie Svrcek, Deputy City Manager; Donna Witt, Director of Financial Services; Rhonda Allbeck, Assistant Director of Financial Services; Starlette Early, Budget Analyst

1. Report on the General Fund Reserve for Contingencies

Donna reported on one new item for the Reserve for Contingencies, \$84,071 for Technology-related Equipment for the Circuit Court. If approved, the current balance in the General Fund Reserve for Contingencies is \$1,012,111.

2. Approve the submittal of a grant application to the Department of Homeland Security Federal Emergency Management Agency's (DHS/FEMA) National Preparedness Directorate's FY 2015 Assistance to Firefighters Grant (AFG) in the Operations and Safety category for \$281,649 with resources of \$253,484 from the AFG FY 2015 fund; \$111,845 from the FY 2017 Major Building Repairs - Capital Projects Fund; and \$8,165 from City/Federal/State Aid Fund (Fire Programs Aid to Localities entitlement funds) to fund two station generators and replacement fire hose for the Fire Department.

The Committee unanimously approved this item.

3. Adopt a resolution to amend the FY 2016 Adopted Budget and appropriate \$84,071 from the General Fund Reserve for Contingencies to purchase and install equipment to display and capture into evidence any visual displays of evidence presented to the Circuit Court.

The Committee unanimously approved this item. This item will be taken to full Council for consideration on March 8, 2016.

4. Consider a request to adopt a resolution to amend the FY 2016 City/Federal/State Aid Fund budget and appropriate \$22,680 with resources from a grant from the Library of Virginia to preserve eighty-four (84) Deed books numbered 298 through 382 with records dated July 1955 through December 1963 at the Lynchburg Circuit Court Clerk's Office.

The Committee unanimously approved this item. This item will be taken to full Council for consideration on March 8, 2016.

5. Adopt a resolution to amend the FY 2016 City/Federal/State Aid Fund budget and appropriate \$8,712 with resources of \$7,841 from the Juvenile Accountability Block Grant, Department of

Criminal Justice Services, and \$871 from the Department of Human Services/Juvenile Services Division to fund the upgrade of cameras to a digital system at the Detention Center.

The Committee unanimously approved this item. This item will be taken to full Council for consideration on March 8, 2016.

6. Review highlights of attached quarterly financial reports for the Regional Airport, Lynchburg Regional Juvenile Detention Center, Children's Services Act, Water Operating, Sewer Operating, Stormwater Operating, and General Funds for the quarter ending December 31, 2015.

GLTC: Donna reported Josh Baker was unable to attend today's Finance Committee meeting and will present the quarterly report for GLTC at the next meeting.

Airport: Mark Courtney reported the Airport Fund is on track with budget and air traffic projections. January presented challenging weather, but scheduled seats are up 15.2% thru March compared to last March. Revenues are \$56,000 (6.4%) above budgeted primarily due to aircraft parking fees and rental cars. Retail fuel sales are down 28%. Looking ahead the Airport expects to operate with 0% subsidy from the City.

Lynchburg Regional Juvenile Detention Center: Tamara Rosser reported revenues from services are below budget due to serving fewer juveniles; however, \$8,000 of additional revenue is expected from serving one juvenile placed in the Department of Juvenile Justice (DJJ) Re-entry program. Full revenues are anticipated for operational expenses of the Detention Center. USDA revenue will be reduced as it is reimbursed according to the number of meals served. Expenditures are within budget even with increased training costs due to staff participating in leadership programs.

Children's Services Act (CSA): Tamara reported revenues are down as it is taking longer to receive requested reimbursements from the State. They are working hard to use IV-E funding where possible and are diligent with parental co-pays. Expenses are lower in mandated services due to transferring some to IV-E, higher in Special Ed where students are staying longer periods of time, and lower in non-mandated services due to an increase in mandated services for this population. There was discussion regarding decision making process that enables child to stay in program longer and a request by the Committee to evaluate and monitor expenditures in comparison to FY 2015.

Water: Tim Mitchell reported revenues are tracking along budget and expenses are lower than budgeted due to vacancies in administration and savings in chemicals and electricity by using the Pedlar Reservoir as sole source of water. Overall the Water Fund is at or above target ratio however, the next few years be challenging due to changes in contracts with Bedford County.

Sewer: Tim Mitchell reported revenues are exceeding budget because of additional leachate from Maplewood Landfill and sewer sales from WestRock and Frito-Lay. Expenses are also slightly exceeding budget due to sludge disposal challenges related to odor issues.

Stormwater: Tim Mitchell reported overall revenues are within budget and expenses are slightly down due to savings in Supplies and Materials as staff continues to develop priority repair schedule and lower contractual services by performing in-house repairs.

Water, Sewer, and Stormwater Financial Policies Review: Tim Mitchell reviewed the current financial policies and proposed revisions to reserve fund targets in response to changes in the Virginia Department of Environmental Quality Special Order. There were also no established policies for Stormwater Fund and his proposal included incorporating this fund. There was discussion regarding how these targets would affect bond ratings, how the targets would impact rates for water, sewer, and stormwater, and the appropriate language to use in the revised policies to meet the intent of the policy. The Committee decided to defer for review by the City's financial advisors in order to provide guidance prior to the policies being presented to full Council on March 22.

General Fund: Donna Witt reported the General Fund is in good shape with large revenues in line with budget and expenditures at 50.9%.

General Fund Financial Policies Review: Donna Witt reported that while the City's financial advisors had not made recommendations for specific changes to the General Fund policies, staff proposed revisions in language that incorporated the GLTC in the City's quarterly reporting and provide more specific restrictions on use of fund balance in Third Quarter Review and management of First Quarter Review (formerly referred to as Carry-forward) processes. The Committee elected to have the City's financial advisor review these policy changes prior to moving forward to full Council on March 22.

7. Review collections received from five of the City's largest revenue sources.

Donna reported on the five largest revenues, all revenues are tracking as expected. Sales and Use Tax looks a bit odd due to a true-up from a retailer that reported excess sales in December 2015. Staff is investigating the issue as conflicting information was received earlier regarding this timeframe. Electric Consumption was down due to a warmer December and Communications Sales and Use tax continues a declining pattern. Meals tax continues to grow and the Lodging tax is normal for December.

8. Roll Call

Council Member Helgeson inquired about review of Finance Committee meeting notes. It was decided to include the meeting notes as part of the Committee's materials and place the approval of the draft meeting notes as an item on the following meeting agenda.

Meeting adjourned at 12:55 p.m.

The next Finance Committee meeting is Tuesday, March 22, 2016, at 11:30 a.m.

FY 2016 GENERAL FUND RESERVE FOR CONTINGENCIES

	<u>Reserve for Contingencies</u>	<u>City Manager's Discretionary Funding</u>
BEGINNING BALANCE, JULY 1, 2015	\$565,917	\$50,000
Carryforward to FY 2016 Reserve for Contingencies - 05/26/15 Council Meeting	584,083	
BALANCE	<u>\$1,150,000</u>	<u>\$50,000</u>
APPROPRIATIONS (Second Reading)		
Body-Worn Camera Pilot Implementation Program - 11/10/15 Council Meeting	(\$103,818)	
TOTAL APPROPRIATIONS	<u>(\$103,818)</u>	<u>\$0</u>
REMAINING BALANCE	<u>\$1,046,182</u>	<u>\$50,000</u>
ITEMS INTRODUCED		
TOTAL INTRODUCED ITEMS	<u>\$0</u>	<u>\$0</u>
REMAINING BALANCE	<u>\$1,046,182</u>	<u>\$50,000</u>
PENDING ITEMS		
Technology-related Equipment for Circuit Court - 03/08/16 Council Meeting	(\$84,071)	
TOTAL PENDING ITEMS	<u>(\$84,071)</u>	<u>\$0</u>
PROJECTED BALANCE	<u>\$962,111</u>	<u>\$50,000</u>

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **April 12, 2016**

AGENDA ITEM NO.: **3**

CONSENT: REGULAR: **X**

WORK SESSION:

CLOSED SESSION:
(Confidential)

ACTION: **X**

INFORMATION:

ITEM TITLE: 2015 State Homeland Security Program (SHSP) grant: \$75,000 for Lynchburg Fire Department's Technical Rescue Team

RECOMMENDATION: Adopt a resolution to amend the FY 2016 City/Federal/State Aid Fund budget and appropriate \$75,000 with resources from the 2015 State Homeland Security Program (SHSP) grant from U.S. Department of Homeland Security (DHS) to fund replacement of aged equipment for Technical Rescue Teams.

SUMMARY: The Virginia Department of Emergency Management is administering this grant from the Department of Homeland Security (DHS) through the State Homeland Security Program (SHSP) grant. The Fire Department was awarded \$75,000 to be utilized by Technical Rescue Teams. The funds will be used for replacement of aged equipment including but not limited to; water rescue boat, wet suits, dry suits, portable generator to be used during deployment, and confined space equipment.

This grant is 100% reimbursable; no local match is required.

PRIOR ACTION(S): Finance Committee – March 22, 2016

FISCAL IMPACT: None – No local match is required. Future funds may be needed for periodic maintenance of the equipment purchased.

CONTACT(S):

Fire Chief S. Brad Ferguson, 455-6340

Deputy Chief Greg Wormser, 455-6345

Ellen Davidson-Martin, Fire Administrative Manager, 455-6368

ATTACHMENT(S): Resolution

REVIEWED BY:

RESOLUTION:

BE IT RESOLVED that the FY 2016 City/Federal/State Aid Fund budget is amended and \$75,000 is appropriated with resources from the 2015 State Homeland Security Program (SHSP) grant from U.S. Department of Homeland Security (DHS) to fund replacement of aged equipment for Technical Rescue Teams.

Introduced:

Adopted:

Certified:

Clerk of Council

FINANCE COMMITTEE

Agenda Item Summary

MEETING DATE: **March 22, 2016**

AGENDA ITEM NO.: **4**

CONSENT:

REGULAR:

WORK SESSION:

CLOSED SESSION:

ACTION:

INFORMATION: **X**

(Confidential)

ITEM TITLE: Virginia Department of Fire Programs Regional Fire Services Training Facilities Grant to purchase a Flashover Simulator

RECOMMENDATION: Approve the submittal of a grant application to the Virginia Department of Fire Programs Regional Fire Services Training Facilities Grant (RFSTF) for \$38,500 to purchase a Flashover Simulator.

SUMMARY: The Virginia Department of Fire Programs (VDFP) periodically awards grant funding to assist regional fire training centers in acquiring or updating training props within the Commonwealth per the National Fire Protection Association (NFPA) 1001 and 1403 training standards.

The Fire Department desires to submit a grant request for \$38,500 in RFSTF funding to purchase a flashover simulator to be located at the Central Virginia Regional Emergency Services Training Center.

Flashover is an extreme fire behavior event that may occur inside structures whereby fire spreads rapidly, almost simultaneously igniting everything in a room or compartment. As a result of flashovers, an unacceptable number of near-misses and deaths occur in the fire service each year. The flashover simulator will provide opportunities to receive advanced training on fire behavior and modern fire dynamics. Therefore, having this training prop will increase safety among firefighters in Lynchburg, and across the region.

The grant is fully funded by the State and requires no local match.

PRIOR ACTION(S): None

FISCAL IMPACT: There is no upfront cost or matching funds required to procure the Flashover Simulator. Future funds may only be required for periodic maintenance and repair.

CONTACT(S):

Fire Chief Steven B. Ferguson, 455-6340

Battalion Chief Jonathan Wright, 455-6363

Ellen Davidson-Martin, Fire Administrative Manager, 455-6368

ATTACHMENT(S): None

REVIEWED BY:

Greater Lynchburg Transit Company



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February 12th, 2016

Finance Committee
City Council
City of Lynchburg
Lynchburg, Virginia

RE: December 31st, 2015 (2nd Quarter) Financial Report – Greater Lynchburg Transit Company

The attached Greater Lynchburg Transit Company Comparative Income Statement summarizes the financial activities for the second quarter of FY16 and final YTD data for the fiscal year.

REVENUE

GLTC has continued to see revenues below budget by approximately 5%. We continue to show positive performance in advertising and non-operating revenue. GLTC took a loss of Federal and State funds this year which amounts to a combined 6% reduction, this issue is compounded with below target fare box revenues and Liberty University Revenue have combined to create our shortfall.

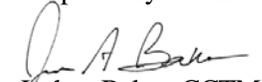
EXPENDITURES

Expenses are down about 4% primarily due to efforts in cost savings with Maintenance and Paratransit Operations. Our new Employee Handbook goes into effect January 1st, 2016 and has an aggressive attendance policy. We are hopeful this will address the chronic overtime issues we continue to experience due to staffing shortages. From what we have seen thus far in the early part of 2016 we are starting to make a dent in this issue.

SUMMARY

This is the first year in recent memory where GLTC is facing a revenue shortfall that, combined with unavoidable increased expenses (Insurance, Wages, and Maintenance of the aging bus fleet) is showing a deficit position. We are monitoring operations closely, have frozen any and all discretionary spending and are working on an internal budget revision to help us make it through the year in the effort to close in the black.

Respectfully submitted,


Joshua Baker, CCTM
General Manager

Cc: L. Kimball Payne III, City Manager
Bonnie Svrcek, Deputy City Manager
Donna Witt, Director of Financial Services

CENTRAL VIRGINIA TRANSIT MANAGEMENT CO INC.
QUARTERLY INCOME STATEMENT
AS OF DECEMBER 31, 2015

	QTR TO DATE						
	FY2016 QTD ACTUAL	FY2016 QTD BUDGET	% VAR				
REVENUE							
FRT Passenger Revenue	\$ 211,134	\$ 261,793	-19%	\$ 416,453	\$ 523,586	80%	
DRT Passenger Revenue	20,455	23,750	-14%	41,901	47,500	88%	
Contracts (LC Access)	5,896	6,500	-9%	11,792	13,000	91%	
Contracts (CVCC Access)	12,875	12,500	3%	25,750	25,000	103%	
Liberty University Revenue	367,121	417,485	-12%	607,816	695,809	87%	
Other Contract Revenue	9,458	14,950	-37%	14,184	29,900	47%	
Non-Operating Revenue	16,171	-	100%	28,429	-	0%	
Advertising Revenue	25,189	16,250	55%	50,590	32,500	156%	
City Operating Assistance	348,509	348,510	0%	697,019	697,019	100%	
County Operating Assistance	14,375	14,373	0%	28,750	28,746	100%	
State Operating Assistance	360,852	381,923	-6%	723,564	763,845	95%	
Federal Operating Assistance	504,799	508,500	-1%	1,009,598	1,017,000	99%	
TOTAL REVENUE	\$ 1,896,834	\$ 2,006,533	-5%	\$ 3,655,845	\$ 3,873,905	94%	
EXPENSES							
FIXED ROUTE							
Operator Labor	\$ 460,953	\$ 411,432	12%	\$ 868,494	\$ 822,864	106%	
Operator-Overtime	107,128	22,618	374%	162,315	45,236	359%	
Other Salaries & Wages	67,516	70,416	-4%	131,864	140,831	94%	
Supervisors-Overtime	8,492	4,483	89%	16,516	8,967	184%	
Fringe Benefits	342,215	295,541	16%	598,324	591,081	101%	
TOTAL FIXED ROUTE	\$ 986,304	\$ 804,489	23%	\$ 1,777,513	\$ 1,608,978	110%	
DEMAND RESPONSE							
Operator Labor	\$ 59,803	\$ 72,489	-18%	\$ 117,175	\$ 144,978	81%	
Operator-Overtime-PTS	1,472	1,344	10%	2,826	2,688	105%	
Other Salaries & Wages	22,429	25,217	-11%	46,060	50,434	91%	
Fringe Benefits	44,843	46,911	-4%	84,260	93,822	90%	
TOTAL DEMAND RESPONSE	\$ 128,547	\$ 145,961	-12%	\$ 250,323	\$ 291,922	86%	
MAINTENANCE							
Other Salaries & Wages	\$ 160,875	\$ 173,768	-7%	\$ 314,323	\$ 347,537	90%	
Inspection&Maint,Srvc-Overtime	4,910	8,403	-42%	12,608	16,806	75%	
Fringe Benefits	88,758	84,440	5%	165,886	168,880	98%	
Fuel & Lubricants	109,849	211,483	-48%	234,989	422,966	56%	
Tires & Tubes	19,034	16,721	14%	39,365	33,443	118%	
Other Materials & Supplies	117,775	109,816	7%	217,719	219,632	99%	
TOTAL MAINTENANCE	\$ 501,202	\$ 604,632	-17%	\$ 984,892	\$ 1,209,263	81%	
ADMINISTRATION							
Other Salaries & Wages	\$ 77,977	\$ 65,246	20%	\$ 151,007	\$ 130,492	116%	
Fringe Benefits	41,668	42,220	-1%	76,621	84,440	91%	
Services	128,621	128,176	0%	261,391	256,351	102%	
Utilities	28,267	38,050	-26%	53,708	76,100	71%	
Casualty & Liability Expenses	66,786	74,650	-11%	131,394	149,300	88%	
Other Materials & Supplies	33,838	16,354	107%	42,525	32,708	130%	
Miscellaneous	22,886	17,175	33%	35,311	34,350	103%	
TOTAL ADMINISTRATION	\$ 400,043	\$ 381,871	5%	\$ 751,957	\$ 763,741	98%	
TOTAL EXPENSES	\$ 2,016,096	\$ 1,936,952	4%	\$ 3,764,684	\$ 3,873,905	97%	
NET INCOME/(LOSS)	\$ (119,262)	\$ 69,581		\$ (108,838)	\$ -		

Lynchburg City Council Agenda Item Summary

MEETING DATE: **March 22, 2016**

AGENDA ITEM NO.: **6**

CONSENT: REGULAR: **X**

WORK SESSION:

CLOSED SESSION:
(Confidential)

ACTION: **X**

INFORMATION:

ITEM TITLE: **Review, Amend and Reaffirm the City's Financial Management Policies**

RECOMMENDATION: Review, amend and reaffirm the City's Financial Management Policies.

SUMMARY: The City's financial policies were last reaffirmed by City Council in February 2013.

In consultation with the City's Financial Advisors, Davenport & Company, LLC (Davenport), staff reviewed the financial policies and proposed amendments to the Fund Balance and Debt Management Policies. Such amendments are proposed to comply with the new Consent Order regarding the Combined Sewer Overflow (CSO) program. Financial policies for the Stormwater Fund have also been included for Council's review. Staff has clarified the policies to reflect current practice by adding a First Quarter Adjustment section. There are no proposed revisions to the Investment Policy.

Staff recommends the policies be amended and reaffirmed with the changes as noted in the attached document.

PRIOR ACTION(S): The Financial Policies were originally adopted by Council on August 10, 1999 and have been periodically revised or reaffirmed.
Finance Committee – March 22, 2016

FISCAL IMPACT: Broad implications

CONTACT(S): Donna Witt, Director of Financial Services, 455-3968

ATTACHMENT(S): Resolution; Financial Management Policies (amended and reaffirmed March 22, 2016)

REVIEWED BY: lkp

RESOLUTION:

BE IT RESOLVED that City Council amends and reaffirms the City's Financial Management Policies as noted in the document, Financial Management Policies.

Introduced:

Adopted:

Certified:

Clerk of Council

BASIS FOR SOUND FINANCIAL MANAGEMENT POLICIES

The primary objective of sound financial management policies is for the City Council to create a framework within which financial decisions can be made. These policies are a statement of the guidelines and goals that influence and guide the financial management practices of the City of Lynchburg. Financial management policies that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Sound financial management policies:

- Contribute significantly to the City's ability to insulate itself from fiscal crisis and economic disruption.
- Enhance short-term and long-term financial credit ability 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-term financial planning with day-to-day operations.
- Provide the City Council and citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.
- Ensure that the organization has sufficient resources to perform mandated responsibilities.
- Provide a foundation for evaluating financial analysis and condition.

FINANCIAL MANAGEMENT POLICIES

The City intends to adhere to these policies. If there is any variance from these policies, the City will advise City Council and establish a plan for recovery within three years.

Policy I - Fund Balance

General Fund

Unassigned Fund Balance

- The City of Lynchburg's Unassigned General Fund Balance will be maintained at a level to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
- The City shall not use the Unassigned General Fund Balance to finance recurring operating expenditures.
- The City will maintain an Unassigned General Fund Balance (UGFB) equal to 10% of General Fund revenues. In the event the UGFB is used to provide for temporary funding of unforeseen emergency needs, the City shall restore the Unassigned General Fund Balance to the minimum of 10% ~~over five years~~ *within three years*.
- Funds in excess of the targeted 10% fund balance may be considered to supplement "pay-as-you-go" capital outlay expenditures, other non-recurring expenditures or as additions to fund balance.

Committed Fund Balance

- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of ~~the highest level of decision making authority— City Council. Formal Council action includes the annual adoption of the City's Budget Resolution, Council Resolutions appropriating funds and/or resources, Budget amendments appropriating funds and resources from third quarter adjustments and Budget amendments to carry forward appropriations that were unexpended at fiscal year end.~~ *These committed fund balance amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. Committed fund balance also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.*

Assigned Fund Balance

- Assigned fund balance includes amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. Fund Balance may be assigned either through the encumbrance

process as a result of normal purchasing activity (which includes the issuance of a purchase order), or by the City Manager or designee, *in accordance with Council adopted fund balance policy.*

Restricted Fund Balance

- Restricted fund balance includes amounts that have constraints placed on their use by external sources such as creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Non-Spendable Fund Balance

- Non-spendable Fund Balance includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaids or they are legally or contractually required to be maintained intact.

Policy on the order of spending resources

- The City considers restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unrestricted fund balance are available unless prohibited by legal documents or contracts. When an expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available, the City considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.

Enterprise Funds

Water Fund

- Minimum ending fund balance shall not be less than 25% of total fund appropriations with a target balance of 40% of total fund appropriations. *In the event the ending fund balance falls below the minimum of 25% of total fund appropriations, the City shall restore the fund balance to the minimum of 25% within three years.* Funds in excess of the annual requirements may be considered for “pay-as-you-go” capital outlay expenditures, other non-recurring expenditures or funding of necessary reserves. *Total appropriations include operating expenses, debt service and transfers.*
- A rate review will be conducted at least every two years.

Sewer Fund

- In accordance with the Virginia Department of Environmental Quality Special Order ~~for the correction of the Combined Sewer Overflows, the maximum ending fund balance shall not exceed 25% of total fund appropriations; however, the City shall endeavor to maintain a fund balance as close to 25% as practicable.~~, *the City shall annually adjust sewer system reserve funds to no more than 40% of the subsequent fiscal years’ budgeted operating expenses and debt service.*
- *Minimum ending fund balance shall not be less than 25% of total fund appropriations. In the event the ending fund balance falls below the minimum of 25% of total fund appropriations, the City shall restore the fund balance to the minimum of 25% within three years. Total appropriations include operating expenses, debt service and transfers.*
- ~~As provided by the Special Order, any excess Ending fund balance will be directed in excess of 40% will be reallocated~~ to “pay-as-you-go” capital outlay expenditures.
- A rate review will be conducted at least every two years.

Stormwater Fund

- *Minimum ending fund balance shall not be less than 15% of total fund appropriations with a target balance of 20% of total fund appropriations. In the event the ending fund balance falls below the minimum of 15% of total fund appropriations, the City shall restore the fund balance to the minimum of 15% within three years. Total appropriations include operating expenses, debt service and transfers.*
- *Funds in excess of the annual requirements may be considered for “pay-as-you-go” capital outlay expenditures, other non-recurring expenditures or funding of necessary reserves.*
- *A rate review will be conducted at least every two years.*

Policy II - Debt Management

Tax-Supported Debt

Tax-supported obligations are those that are expected to be repaid from the General Fund tax revenue of the City of Lynchburg. These include general obligation bonds (except self-supporting bonds) and capital leases. General obligation bonds issued for self-supporting enterprise funds are not included in calculations of tax-supported bonds.

- The City will not use long-term debt to fund current operations.
- The City will not use short-term borrowing to fund current operations.
- Whenever the City finds it necessary to issue tax-supported bonds, the following policy will be adhered to:
 1. The City will never borrow more than it has the capacity to repay.
 2. The term of any bond issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.
 3. Annual debt service expenditures for tax-supported debt should not exceed 10% of total General Fund Expenditures plus School Component Unit Expenditures minus the General Fund Transfer to Schools.
 4. Total tax-supported debt will not exceed 4.50% of the net assessed valuation of taxable property in the City of Lynchburg.
 5. Total tax-supported debt per capita should be maintained at a reasonable level.
 6. The 10-Year Principal Payout Ratio shall not be less than 60% at the end of each adopted five-year Capital Improvement Program for Tax-Supported General Obligation Indebtedness.

Revenue-Supported Debt

The Water, Sewer and Stormwater Funds may issue General Obligation or Revenue-Supported Debt.

Revenue-supported obligations are those for which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities (i.e. water, sewer). These are not considered tax-supported debt of the City. Whenever the City finds it necessary to issue revenue-supported bonds, the following guidelines will be adhered to:

1. The term of any revenue-supported *or general obligation* bond issue will not exceed the useful life of the capital project/facility or equipment for which borrowing is intended.
2. Revenue-supported *and general obligation bonds* will be structured to allow equal or declining annual debt service payments over a term not to exceed the life of the project being financed. For those revenue-supported bonds issued through the Virginia Revolving Loan Fund, annual debt service payments shall not exceed thirty years.
3. ~~For any enterprise fund issuing revenue-supported bonds,~~ *The Water, Sewer and Stormwater Funds*, net revenues available for debt service shall not be less than 1.2 times annual debt service for each fiscal year. *For the Sewer Fund, in accordance with the Virginia Department of Environmental Quality Special Order, net revenues shall not exceed 1.5 times annual debt service computed on a three-year rolling average.* Net revenues available for debt service will be calculated as operating income, plus depreciation and amortization, ~~and~~ plus interest income, *plus governmental grants, plus miscellaneous income, plus capital contributions of others who jointly share in ownership of an infrastructure or facility, and plus any capitalized costs.* Debt service will include all debt service paid by the respective fund; however, the principal portion of any bond anticipation notes or other short-term financing should be excluded.
4. *In the event net revenues available for debt service falls below 1.2 times annual debt service of any fiscal year, the City shall restore the net revenues available for debt service to the minimum of 1.2 within three years.*

Refinancing of Debt

- The City shall issue refunding bonds to achieve debt service savings, eliminate onerous covenants or provisions in outstanding bond documents, or to respond to a financial emergency.
- The City shall continually monitor its outstanding debt to identify instances where the City may achieve savings through an advance refunding or current refunding transaction.
- The City shall receive a written refunding analysis indicating the amount of net present value savings from its financial advisor prior to selling bonds to refund any outstanding bonds.
- A refunding transaction to achieve debt service savings should only be undertaken when the net present value of the savings, net of issuance costs, will be at least 3% of the principal amount of the refunded bonds. Refunding transactions for revenue bonds can be structured so that savings are realized over the life of the refunding bonds or up-front, depending on the results of a cost-benefit analysis.

General Debt Policies

- The City will maintain communication with bond rating agencies to keep them abreast of its financial condition and will provide them with information on a timely basis including the City's *Comprehensive Annual Financial Report*, *Annual Adopted Budget* and *Capital Improvement Program*.
- The City shall comply with all of its undertakings in accordance with Securities and Exchange Commission Rule 15c2-12 and will follow the Government Finance Officers' Association and Securities and Exchange Commission requirements for continuing disclosure.
- The City may use the Virginia Public School Authority (VPSA) or State Literary Fund loans to finance school capital projects. City bonds sold to the VPSA and Literary Fund loans constitute general obligation debt of the City. City Council shall approve any application to the VPSA or the Department of Education for a Literary Fund loan. City Council shall approve the issuance of the bonds as required by the Public Finance Act. The School Board shall recommend such financings before a proposed financing is brought to City Council for approval.

Policy III - Budget

Principles

- Public participation in the budgetary process will be encouraged.
- The City will avoid dedicating revenue to a specific project or program because of the constraint this may place on flexibility in resource allocation except in instances where programs are expected to be self-sufficient or where revenue is dedicated to a program for statutory or policy reasons.
- The budget process will be coordinated in a way that major policy issues are identified for City Council several months prior to consideration of budget approval. This will allow adequate time for appropriate decisions and analysis of financial impacts.

Policies

- City Council shall adopt a balanced budget in accordance with all legal requirements.
- A structured budget preparation and formulation process shall be used for all departments and agencies receiving funding from the City.
- Departmental budgets shall be managed within the total appropriated budget for each fiscal year.
- All operating budget appropriations shall lapse at the end of the fiscal year to the extent that they are not expended or encumbered. ~~with the exception of year-end carry forward items approved by City Council~~
- The budget shall be adopted by the favorable vote of a majority of members of City Council.
- The Vision and priorities established by City Council as well as the *Comprehensive Plan* will serve as the framework for the budget proposed by the City Manager.
- The fiscal year for the City is July 1 through June 30 as defined by the *City Code*, Section 18-1.
- One-time revenues shall be used for one-time expenditures only.

- A General Fund Reserve for Contingencies of \$1.2 million shall be used as a source of funding for unanticipated expenditures during the budget year. The Reserve for Contingencies is limited to one-time expenditures and shall not be considered a source for recurring financing.

Process

- The City Manager shall annually prepare a *Proposed Budget* for City Council review. The *Proposed Budget* shall serve as a financial plan for the upcoming fiscal year and shall contain the following information:
 1. A budget message that outlines the proposed revenue and expenditures for the upcoming fiscal year together with an explanation of any major changes from the previous fiscal year. The budget message should also include any proposals for major changes in financial policy.
 2. Charts indicating the major revenues and expenditures in each major fund (General, Water, Sewer, *Stormwater*, Airport) as well as changes in fund balance for all funds.
 3. Summaries of proposed expenditures by function, department and activity for all funds proposed to be expended in a fiscal year.
 4. A schedule of estimated requirements for the principal and interest of each bond issue.
 5. A three-year history of revenues and expenditures to include the prior year actual, current year adopted, ~~amended~~, *revised* and proposed budgets for each major fund.
 6. The proposed budget appropriation resolution, including the tax levy.
- The City Council shall hold a public hearing on the budget submitted by the City Manager and all interested citizens shall be given an opportunity to be heard on issues related to the proposed budget, including the *Capital Improvement Program*.
- Following the public hearing on the *Proposed Budget*, City Council may make adjustments. In instances where City Council increases the total proposed expenditures, it shall also identify a source of funding at least equal to the proposed expenditures.

Capital Improvement Program

- A five-year *Capital Improvement Program (CIP)* that serves as the basis for annual capital appropriations and debt financing requirements shall be prepared and updated annually.
- The *CIP* shall include descriptions, timeline, cost estimates, and a schedule of expected expenditures for each project.
- Debt service requirements and funding needs for schools and City government shall be determined based on the *Adopted CIP*.
- Long-term borrowing shall be confined to major capital improvements and equipment purchases.
- Short-term borrowing shall be limited to bond anticipation notes and equipment leasing, where feasible, with a life of less than 8 years.
- Capital project appropriations shall lapse upon project completion, allowing for an adequate warranty period. Lapsed appropriations shall remain in the Capital Fund for reallocation to other projects.
- Incremental operating costs associated with capital projects shall be funded in the operating budget after being identified and approved in the Capital Improvement Program.
- Pay-as-you-go funding, including *State Highway Maintenance funds, State Revenue Sharing Funds, State and federal grants, and other cash sources*, shall not be less than 10%, with a goal of 15%, ~~as a percentage~~ of the City's 5-Year CIP.

Quarterly Financial Reporting

The City Manager will present to the City Council's Finance Committee (with copies to the remainder of Council) quarterly financial reports identifying meaningful trends in revenues and expenditures for the General, Water and Sewer, Airport, Stormwater, Children's Services Act, Juvenile Detention ~~Funds~~, and *Greater Lynchburg Transit Company Funds*.

Third Quarter Review

In mid-March, *City Budget* staff will evaluate all expenditures and revenues as compared to budget and make recommendations to City Council regarding possible *budget* adjustments. Section 15.2-2507 of the *Code of Virginia* requires that a public hearing be held prior to City Council action when *a proposed the potential increases amendment of the budget in the appropriation* exceeds one percent of the total expenditures shown in the currently adopted budget.

First Quarter Review

In September, Budget staff will evaluate requests for the carry forward of funds remaining from prior year appropriations and other possible budget adjustments. Section 15.2-2507 of the Code of Virginia requires that a public hearing be held prior to City Council action when the proposed budget amendment exceeds one percent of the total expenditures shown in the currently adopted budget.

Policy IV - Investment

I. Policy Statement

It is the policy of The City of Lynchburg, Virginia (“the City”) that the investment and administration of its funds be made in accordance with the Code of Virginia Investment of Public Funds Act, the applicable provisions of any outstanding bond indebtedness, and this policy. The City shall be in complete compliance with all applicable federal, state and local laws, and other regulations and statutes governing the investment of public funds. Within those parameters, the goal of this policy is to achieve the highest rate of return that is reasonable. The City will establish an Investment Committee consisting of the City Manager, Deputy City Manager, and Director of Financial Services. This Committee will provide broad policy oversight over investments. This policy will be reviewed on an annual basis. Any changes must be approved by the Investment Committee and be reaffirmed by City Council. See Appendix 1 for a Glossary of Investment Terms.

II. Scope

This policy applies to the investment of all the financial assets and funds held by the City. Specific requirements or limitations imposed upon the investment of Bond Proceeds, Debt Service Funds and Debt Service Reserve Funds are located in Section X of this Policy. These Funds are accounted for in the City of Lynchburg’s Comprehensive Annual Financial Report and include the General, Special Revenue, Capital Projects, and Proprietary Funds.

III. Objectives

Funds shall be invested in only those investments permitted by Federal, State and local law as it relates to public funds, as well as any contractual agreements entered into by the City.

All of the City’s funds, regardless of term, shall be invested with the following objectives listed in the order of priority:

1. *Safety* - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. Specifically, the City will:
 - a. seek to avoid realizing any loss through the sale or disposal of an investment; and
 - b. seek to mitigate the risk of unrealized losses due to a decline in value of investments held in the portfolio.
2. *Liquidity* - The investment portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. This shall be accomplished by structuring the portfolio in the following manner:
 - a. The City will purchase investments scheduled to mature in accordance with its anticipated cash needs, in order to minimize the need to sell investments prior to maturity;
 - b. A portion of City Funds will be maintained in cash equivalents, including money market funds, investment pools and overnight securities, which may be easily liquidated without a loss of principal should an unexpected need for cash arise; and
 - c. The portfolio will consist largely of investments with active secondary markets.

3. *Yield* - The City's investment portfolio shall be designed with the objective of maximizing a fair rate of return consistent with the investment risk constraints and cash flow characteristics of the portfolio. The Investment Committee shall establish suitable benchmarks for the measurement of the portfolio's return.

IV. Delegation of Authority

Under the guidance of the Investment Committee, the City's Director of Financial Services is the official charged with collecting, safeguarding and disbursing City funds. In this capacity, and with consensus from the Investment Committee, the Director of Financial Services is responsible for establishing staff roles and responsibilities, considering the quality and capability of staff, selecting investment advisors and consultants involved in investment management, and developing and maintaining appropriate administrative procedures for the operation of the investment program. Examples of key staff roles and responsibilities include, but are not limited to, solicitation of investment offerings, placement of purchase and sell orders, confirmation of trades, and preparation of reports and other activities as required for the daily operations of the investment area. The Director of Financial Services is also charged with developing written standard Investment procedures and an asset allocation plan consistent with this policy. Such procedures shall be reviewed and approved by the Investment Committee. Subject to the approval of the Investment Committee and City Council, the Director of Financial Services may employ financial consultants on a contractual basis to assist in the development and implementation of investment procedures and policies, to monitor the effectiveness and continued compliance with such policies and procedures, and to provide guidance in investment matters.

V. Standards of Care

The standard of prudence to be used by investment personnel shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. 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."

The Director of Financial Services, and those delegated investment authority under this Policy, when acting in accordance with written procedures and this Investment Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

VI. Ethics and Conflicts of Interest

Officers and employees of the City involved in the investment process shall refrain from personal business activities 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 to the Office of the Clerk of Council any material interests in financial institutions with which they conduct business and any personal 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. Officers and employees are required to abide by the provisions of the Virginia Conflict of Interests Act. The Act prohibits City officers and employees from seeking or accepting money or any other thing of value for the performance of their duties, using confidential information for their own benefit and having a personal interest in a company with which the City is doing business. "Officer" means any person appointed or elected to the City's government whether or not he/she receives compensation or other emolument of office. "Employee" means all persons employed by the City.

VII. Collateral and Safekeeping Arrangements

The City's investments shall be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by Virginia Code, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. The Code refers to a counterparty as the issuer or seller of the security and any repurchase agreement provider. All securities purchased or sold will be transferred when possible only under "delivery vs. payment method" to ensure that funds or securities are not released until all criteria relating to the specific transaction are met.

VIII. Competitive Selection of Investment Instruments

It is desirable to select investments on a competitive basis when possible to ensure that the City receives the best price available on a particular investment and avoids paying excessive fees, mark-ups or other compensation to the provider. A list will be maintained of approved financial institutions and security broker/dealers selected by creditworthiness (*e.g.*, a minimum capital requirement of \$10,000,000 and at least five years of operations). These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions will supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the City of Lynchburg Investment Policy

Under the guidance and oversight of the Investment Committee, the Director of Financial Services shall adhere to the following procedures, with assistance from the City’s Investment Advisor where appropriate, when funds become available for investment to the extent practical:

1. The Director of Financial Services shall determine the class of investment and maturity range most appropriate for investment of the funds available, based upon the anticipated expenditure schedule of the City, the desired asset allocation of the City’s portfolio and the City’s Investment Plan.
2. Offers will be solicited for the selected investment from the list of pre-approved providers as noted above.
3. The Director of Financial Services will accept the offer (or bid, if the City is selling an investment) which provides the highest rate of return or which is otherwise deemed most suitable while complying with this Policy and any other criteria specified in the solicitation of offers.

The City shall retain a record of the offers received, the instruments chosen, and the rationale for making the decision.

From time to time, certain investment dealers may present the City with offers that are attractive for investment. Although the City should endeavor to verify (and document) that the price is “fair,” it may occasionally purchase such a security without a competitive process if the investment is for \$500,000 or less.

Additionally, a competitive process shall not be required for the investment of funds in money market funds, investment pools and overnight securities. However, it shall be the responsibility of the Director of Financial Services to be aware of the yields being offered by various highly liquid investments, and to invest the City’s overnight funds in the vehicle(s) which provide a competitive return to the City while complying with this policy and any other criteria established by the Investment Committee or City Council.

IX. Suitable and Authorized Investments – Without Exception, Only the Following Investments Are Suitable and Authorized

1. Treasury Securities

Bonds, Notes and Bills issued by the United States Treasury or certificates representing ownership of treasury bond principal or coupons.

2. Agency Securities (FHLB, FNMA, FFCB, FHLMC, GNMA)

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, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association, maturing within five years of the date of purchase.

3. Prime Commercial Paper

Commercial Paper maturing within 270 days of the day of purchase rated P-1 or higher by Moody's and A-1 or higher by Standard & Poor's, provided that the issuing domestic corporation has a net worth of \$50 million and its long-term debt is rated A or better by Moody's and Standard & Poor's.

4. Certificates of Deposit

Certificates of Deposit maturing within one year and issued by domestic banks rated P-1 by Moody's and A-1 by Standard & Poor's.

5. 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 the issuer is a major domestic bank or the domestic office of an international bank rated AA category or higher by Moody's and Standard & Poor's.

6. Commonwealth of Virginia and Virginia Local Government Obligations

General Obligations, Insured Obligations or Revenue Bonds secured by Debt Service Reserve Funds not subject to annual appropriation rated AA category or higher by Moody's or Standard & Poor's.

7. Repurchase Agreements

Repurchase Agreements collateralized by securities approved for investment herein, provided that the counterparty is rate A or better by Moody's and Standard & Poor's and the collateral is held by an independent third party. All Repurchase Agreements are purchased with a Master Repurchase Agreement in place with a third-party custodian.

8. Open-End Investment Funds

Open-end Investment Funds registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein.

9. Virginia Local Government Investment Pool

10. Virginia State Non-Arbitrage Program or Other Authorized Arbitrage Investment Management Programs

X. Suitable and Authorized Investments – Restricted Funds

Funds defined as sinking funds under the Virginia Code may be invested in items listed in Section IX.1 and IX.6 above, repurchase agreements collateralized by those investments, and in the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs.

XI. Internal Controls

Under the guidance of the Investment Committee, the Director of Financial Services will establish and maintain an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure will 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. The Internal Audit Department shall add this Policy and related Procedures to their Audit Universe for audit consideration. The internal control structure will address the following points:

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

XII. Reporting

Under the guidance of the Investment Committee, the Director of Financial Services will ensure that a Management Report will be prepared on a quarterly basis. The information from this Report may be derived from the Investment Advisor and/or the Safekeeping Agent, or both, where appropriate. This Report will include information that provides

an analysis of the status of the current investment portfolio and whether investment activities during the reporting period have conformed to the investment policy herein. The Report will be presented to City Council for information and comment. To the extent practical, the report detail may include such items as the following:

- Listing of securities held at the end of the reporting period
- Realized and unrealized gains or losses resulting from appreciation or depreciation
- Average weighted yield to maturity of portfolio on investments compared to benchmarks
- Listing of investment by maturity type
- Percentage of the total portfolio which each type of investment represents

XIII. Diversification

The City will endeavor to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity. Target asset allocation strategies shall be developed by the Investment Committee to provide guidance as to appropriate levels of diversification. With the exception of U. S. Treasury securities and authorized pools, no more than 50% of the City's total investment will be the obligations of a single financial institution.

XIV. 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 one year from the date of purchase.

Appendix 1: Glossary of Investment Terms

Accrued Interest – The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency – A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSA's) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization – The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life – The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point – A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., “one-quarter” of 1 percent is equal to 25 basis points.

Bid – The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value – The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Call Price – The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk – The risk to a bondholder that a bond may be redeemed prior to maturity.

Callable Bond – A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Cash Sale/Purchase – A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Collateralization – Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper – An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Convexity – A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate – The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the “interest rate.”

Credit Quality – The measurement of the financial strength of a bond issuer to help an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) – A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) – A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount – The amount by which the par value of a security exceeds the price paid for the security.

Diversification – A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value – The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds) – Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate – Interest rate charged by one institution lending federal funds to the other.

Government Securities – An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market See “Treasury Bills, Notes, and Bonds.”

Interest Rate – See “Coupon Rate.”

Interest Rate Risk – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls – An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is 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. Internal controls should address the following points:

1. Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of transactions for investments and wire transfers -Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. Development of a wire transfer agreement with the lead bank and third-party custodian – The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverted Yield Curve – A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 – Federal legislation which sets the standards by which investment such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy – A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity – An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) – An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-Market – The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk – The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value – Current market price of a security.

Maturity – The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See ‘Weighted Average Maturity.’

Money Market Mutual Fund – Mutual funds that invest, solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers’ acceptances, repos and federal funds).

Mutual Fund – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund’s holdings, performance, management and general investment policy.
3. Have the fund’s investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund’s shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

Mutual Fund Statistical Services – Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

National Association of Securities Dealers (NASD) – A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value – The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund’s assets which includes securities, cash, and any accrued earnings, subtracting this from the fund’s liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund’s portfolio. (See below.) $[(\text{Total assets}) - (\text{Liabilities})] / (\text{Number of shares outstanding})$

No Load Fund – A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield – The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the “coupon,” “coupon rate,” or ‘interest rate.’

Offer – An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the “Ask price.”

Par – Face value or principal value of a bond, typically \$1,000 per bond.

Positive Yield Curve – A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium – The amount by which the price paid for a security exceeds the security's par value.

Prime Rate – A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal – The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus – A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Way Delivery – Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk – The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (repo or RP) – An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) – An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act – Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

Safekeeping – Holding of assets (e.g., securities) by a financial institution.

Serial Bond – A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund – Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap – Trading one asset for another.

Term Bond – Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return – The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. $(\text{Price Appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$.

Treasury Bills – Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Bonds – Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Treasury Notes – Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

Uniform Net Capital Rule – SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility – A degree of fluctuation in the price and valuation of securities.

“Volatility Risk” Rating – A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bonds funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns (“AAA” by S&P; “V- 1” by Fitch) to those that are highly sensitive with currently identifiable market volatility risk (“CCC”- S&P, “V-10” by Fitch).

Weighted Average Maturity (WAM) – The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI) – A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

Yield – The current rate of return on an investment security generally expressed as a percentage of the security’s current price.

Yield Curve – A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-Call (YTC) – The rate of return an investor earns on a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield-to-Maturity – The rate of return yielded by a debt security held to maturity when both interest payments and the investor’s potential capital gain or loss are included in the calculation of return.

Zero-Coupon Securities – Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

FINANCE COMMITTEE

Agenda Item Summary

MEETING DATE: **March 22, 2016**

AGENDA ITEM NO.: 7

CONSENT:

REGULAR:

WORK SESSION:

CLOSED SESSION:

ACTION:

INFORMATION: **X**

(Confidential)

ITEM TITLE: **Revenue Update**

RECOMMENDATION: Review the collections received from five of the City's largest revenue sources.

SUMMARY: Five of the City's major revenue sources are taxes collected on a monthly basis: Sales Tax, Consumer Utility Tax – Electric, Communications Sales and Use Tax, Meals Tax, and Lodging Tax. Since the last Finance Committee meeting, revenue information through January 2016 has been posted for four of the five revenue streams. The January 2016 collection for Communications Sales and Use Tax is not yet available.

PRIOR ACTION(S):

This information is provided monthly to the Finance Committee.

FISCAL IMPACT:

None

CONTACT(S):

Donna Witt, Director of Financial Services, 455-3968

ATTACHMENT(S):

Comparison of Collections Budget to Actual FY 2015 – FY 2016

REVIEWED BY:

**Comparison of Collections
Budget to Actual FY 2015 - FY 2016**

	Actual FY 2012	Actual FY 2013	Actual FY 2014	Actual FY 2015	Adopted FY 2016	Actual FY 2016	Actual FY 2016 to Adopted FY 2016	Actual FY 2016 to Actual FY 2015
SALES & USE TAX								
<i>ADOPTED FY 2016 BUDGET - \$14,700,000</i>								
JULY	\$1,014,596	\$996,646	\$1,075,816	\$1,131,485	\$1,119,202	\$1,207,589	\$88,387	\$76,104
AUGUST ¹	1,079,129	1,145,592	1,098,342	1,299,763	1,142,228	1,198,772	56,544	(100,991)
SEPTEMBER	1,100,698	1,117,209	1,083,199	1,204,336	1,191,262	1,269,930	78,668	65,594
OCTOBER	1,055,941	1,033,859	1,161,965	1,185,608	1,172,738	1,231,666	58,928	46,058
NOVEMBER	1,117,090	1,187,008	1,155,729	1,241,898	1,228,417	1,227,636	(781)	(14,262)
DECEMBER ²	1,488,926	1,466,715	1,316,419	1,669,810	1,651,684	1,600,507	(51,177)	(69,303)
JANUARY	998,052	1,085,312	1,103,175	1,073,237	1,061,587	1,055,364	(6,223)	(17,873)
TOTAL	\$7,854,432	\$8,032,341	\$7,994,645	\$8,806,137	\$8,567,118	\$8,791,464	\$224,346	(\$14,673)
CONSUMER UTILITY TAX - ELECTRIC								
<i>ADOPTED FY 2016 BUDGET - \$3,790,000</i>								
JULY	\$341,729	\$323,141	\$325,815	\$321,596	\$320,615	\$332,876	\$12,261	\$11,280
AUGUST	345,615	345,163	318,738	305,012	304,082	333,953	29,871	28,941
SEPTEMBER	325,754	318,915	317,324	317,947	316,978	328,411	11,433	10,464
OCTOBER	280,745	279,145	273,646	273,264	272,431	281,514	9,083	8,250
NOVEMBER	281,842	282,035	280,945	273,353	272,520	270,434	(2,086)	(2,919)
DECEMBER	325,287	330,714	348,750	346,565	345,509	321,380	(24,129)	(25,185)
JANUARY	344,439	346,399	374,541	365,859	364,744	346,212	(18,532)	(19,647)
TOTAL	\$2,245,411	\$2,225,512	\$2,239,759	\$2,203,596	\$2,196,879	\$2,214,780	\$17,901	\$11,184
COMMUNICATIONS SALES & USE TAX								
<i>ADOPTED FY 2016 BUDGET - \$3,300,000</i>								
JULY	\$349,339	\$293,358	\$286,999	\$283,594	\$275,000	\$276,750	\$1,750	(\$6,844)
AUGUST	294,910	291,560	284,691	281,957	275,000	270,038	(4,962)	(11,919)
SEPTEMBER	179,549	263,295	284,249	283,441	275,000	273,974	(1,026)	(9,467)
OCTOBER	309,437	319,011	288,830	287,702	275,000	277,686	2,686	(10,016)
NOVEMBER	284,123	300,665	284,176	279,441	275,000	271,470	(3,530)	(7,971)
DECEMBER	233,654	297,855	289,726	282,491	275,000	276,524	1,524	(5,967)
TOTAL	\$1,651,012	\$1,765,744	\$1,718,671	\$1,698,626	\$1,650,000	\$1,646,442	(\$3,558)	(\$52,184)

**Comparison of Collections
Budget to Actual FY 2015 - FY 2016**

	Actual Assessed FY 2013	Actual Collected FY 2013 ⁵	Actual Assessed FY 2014	Actual Collected FY 2014 ⁵	Actual Assessed FY 2015	Actual Collected FY 2015 ⁵	Adopted FY 2016	Actual Assessed FY 2016	Actual Assessed FY 2016 to Adopted FY 2016	Actual Collected FY 2016 ⁵	Actual Collected FY 2016 to Adopted FY 2016	Actual Collected FY 2016
MEALS TAX												
<i>ADOPTED FY 2016 BUDGET - \$13,715,000</i>												
JULY ³	\$943,431	\$1,044,556	\$944,920	\$1,159,786	\$1,009,124	\$970,597	1,026,218	\$1,096,314	\$70,096	\$1,046,770	\$20,552	(\$49,544)
AUGUST	1,042,850	1,026,544	1,056,821	1,024,718	1,152,551	1,119,585	1,172,074	1,165,329	(6,745)	1,213,559	41,485	48,230
SEPTEMBER	1,011,701	1,012,294	1,030,134	1,052,079	1,107,413	1,159,391	1,126,172	1,195,300	69,128	1,167,356	41,184	(27,944)
OCTOBER	1,006,966	1,003,032	1,046,550	958,359	1,149,721	1,119,430	1,169,196	1,190,250	21,054	1,152,017	(17,179)	(38,233)
NOVEMBER	964,775	868,692	1,019,305	1,064,385	1,079,590	1,099,028	1,097,877	1,109,019	11,142	1,156,651	58,774	47,632
DECEMBER	1,044,178	1,083,983	1,061,859	1,035,379	1,138,978	1,117,510	1,158,271	1,217,337	59,066	1,224,108	65,837	6,771
JANUARY	927,026	889,358	968,124	971,677	1,089,143	963,288	1,107,592	998,834	(108,758)	908,712	(198,880)	(90,122)
TOTAL	\$6,940,927	\$6,928,459	\$7,127,713	\$7,266,383	\$7,726,520	\$7,548,829	\$7,857,401	\$7,972,383	\$114,982	\$7,869,173	\$11,772	(\$103,210)
LODGING TAX												
<i>ADOPTED FY 2016 BUDGET - \$2,037,000</i>												
JULY ³	\$180,074	\$197,072	\$174,759	\$223,419	\$189,065	\$180,395	186,540	\$180,587	(\$5,953)	\$180,808	(\$5,732)	\$221
AUGUST ⁴	163,020	275,903	185,662	185,340	185,946	185,402	183,463	206,167	22,704	202,217	18,754	(3,950)
SEPTEMBER	160,661	157,680	181,706	204,758	173,904	173,875	171,582	204,267	32,685	206,009	34,427	1,742
OCTOBER	183,064	191,453	184,462	185,014	209,859	209,788	207,056	196,410	(10,646)	160,131	(46,925)	(36,279)
NOVEMBER	131,993	129,941	153,745	148,082	141,855	144,988	139,961	140,701	740	177,048	37,087	36,347
DECEMBER	112,277	113,067	141,137	126,077	115,033	119,891	113,497	129,974	16,653	130,150	16,653	176
JANUARY	134,471	129,578	133,071	125,716	117,665	108,523	116,094	119,637	3,543	109,217	(6,877)	(10,420)
TOTAL	\$1,065,560	\$1,194,694	\$1,154,542	\$1,198,406	\$1,133,327	\$1,122,862	\$1,118,192	\$1,177,743	\$59,727	\$1,165,580	\$47,388	(\$12,163)

¹ The August FY 2015 Actual amount includes a one-time, \$145,000 payment in taxes, which was redistributed to the City from another locality.

² Retailer over-reported Sales & Use Tax in December FY 2015 by \$50,000; Corrected in December FY 2016 by reducing owed tax of \$39,000 and taking additional \$11,000

³ Due to year end accounting activities, a portion of Meals and Lodging Tax revenues associated with May and June were posted in June and July.

⁴ The August FY 2013 collection amount includes a one-time, \$140,000 payment in delinquent taxes.

⁵ Meals and Lodging Tax data includes columns titled "Actual Collected ." The figures listed under these columns include all revenue received per month regardless of whether the payment is current or delinquent.