

FINANCE COMMITTEE AGENDA

**Tuesday, March 27, 2018
11:30 a.m. – Bidder's Room**

GENERAL BUSINESS

11:30 a.m.

1. Approval of the Draft Finance Committee Meeting Notes from February 27, 2018.

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 2018 General Fund budget and appropriate \$154,792 with resources from the General Fund Reserve for Contingencies to refund an overpayment of real estate taxes by the News & Advance for the property at 101 Wyndale Drive for the tax years 2014, 2015, and 2016.

Contact: Walter Erwin, City Attorney 455-3973

11:45 a.m.

4. Consider a request to adopt a resolution to amend the FY 2018 General Fund Budget, appropriating \$40,000 to the Parks and Recreation Fees budget with resources from the Virginia Department of Health to fund the second year of the "We Got the Beet" campaign at the Lynchburg Community Market.

Contact: Jennifer Kennedy, Lynchburg Community Market Manager 455-4486

11:50 a.m.

5. Consider a request to adopt a resolution reaffirming City Council's Financial Management Policies (Fund Balance, Debt, Budget, and Investments).

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

11:55 a.m.

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

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

12:00 p.m.

7. Roll Call

The next Finance Committee meeting is Tuesday, April 24, 2018, at 11:30 a.m.

FINANCE COMMITTEE NOTES-- DRAFT
Tuesday, February 27, 2018

GENERAL BUSINESS

Meeting commenced at 11:30 a.m.

ATTENDEES

Committee Members: Council Member Jeff S. Helgeson, Chair; Council Member Randy Nelson; Council Member Mary Jane Dolan; Mayor Joan Foster, Ex-Officio.

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

1. Approval of the Draft Finance Committee Meeting Notes from September 26, 2017.

The notes for the September 26, 2017 Finance Committee meeting were approved as submitted.

2. Approval of the Draft Finance Committee Meeting Notes from November 28, 2017.

The notes for the November 28, 2017 Finance Committee meeting were approved as submitted.

3. Report on the General Fund Reserve for Contingencies.

Donna Witt reported there were no new items; there is a current balance of \$1,150,000 in the FY 2018 General Fund Reserve for Contingencies.

4. Consider a request to adopt a resolution to amend the FY 2018 City/Federal/State Aid Fund budget and appropriate \$62,817 with resources of \$32,826 from the Virginia Office of Emergency Medical Services – Rescue Squad Assistance Fund (RSAF) grant and \$29,991 from the FY 2018 General Fund Fire Department budget to purchase one (1) chest compression device, one (1) Power Pro stretcher, and one (1) cardiac monitor/defibrillator.

The Committee unanimously approved this item. The item will be considered by City Council at their February 27, 2018 meeting.

5. 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 2018 Assistance to Firefighters Grant (AFG) in the Operations and Safety category for \$257,595 to purchase firefighter self-rescue devices more commonly referred to as Bail-out devices.

The Committee unanimously approved this item.

6. 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 2018 Assistance to Firefighters Grant (AFG) in the Public Education category for \$115,000 to purchase LED electronic signage to be installed at four (4) fire stations to provide the

community with information regarding events, education and safety messages, along with community related impacts.

The Committee unanimously approved this item.

7. Approve the submittal of a grant application to the Virginia Office of Emergency Medical Services Rescue Squad Assistance Fund Grant to purchase \$119,000 worth of Emergency Medical Services (EMS) response and training equipment. This equipment includes; one (1) Simulation Mannequin, one (1) Stretcher, one (1) Cardiac Monitor/Defibrillator, and one (1) set of CPR Mannequins.

The Committee unanimously approved this item.

8. Approve the submittal of a grant application for the 2018 VA Department of Criminal Justice Services Byrne/Justice Assistance Grant in the amount of \$20,066 with resources from a Byrne/Justice Assistance grant to purchase law enforcement equipment for the Lynchburg Police Department.

Captain Randall Houck presented the item. The Committee unanimously approved this item.

9. Review highlights of attached quarterly financial reports for the Greater Lynchburg Transit Company (GLTC) as well as 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, 2017.

GLTC: A written report was submitted by Brian Booth. Information in this report was previously presented to City Council at their February 13, 2018 Work Session.

Airport: A written report was submitted by Mark Courtney. Information in this report was previously presented to City Council at their February 13, 2018 Work Session.

Lynchburg Regional Juvenile Detention Center: Tamara Rosser reported 50 percent of revenues had been received and overall expenses were within budget at 49 percent. A few line items were more than 50 percent at this time due to HVAC repairs (77%) and Training (76%) for the new Superintendent. The Community Placement Program (CPP) is staying full with 8 beds dedicated to this program and a rate of \$139/day per diem.

Children's Services Act (CSA): Tamara Rosser reported second quarter revenues and expenses are on track with the budget, with not a great deal of activity during this period. Overall revenues received are at 42 percent of budgeted and expenses are at 36 percent.

Water: Tim Mitchell reported revenues are exceeding budget by \$226,000 due to higher than anticipated water sales from an industrial customer, increase in contracted water consumption, and interest earnings. Overall expenses are below budget by \$54,000 due primarily to savings from unfilled positions at the end of the second quarter. Debt Service is expected to exceed budgeted by \$80,000 due to a September 26, 2017 bond refunding. The fund balance ratio is projected to be over the target range (63%) and the debt coverage ratio is at 1.20.

Sewer: Tim Mitchell reported overall revenues are projected to exceed budget by \$167,000, mostly attributable to leachate revenue and interest revenue. Overall expenses are also

above budgeted by \$173,000 due to Capital Outlay for replacement of equipment. Debt coverage ratio is 1.21 compared to target minimum of 1.20. The fund balance ratio is within target (38%).

Stormwater: Tim Mitchell reported overall revenues and expenses are within budget. The fund balance ratio is 26% compared to the target balance of 15% - 20% and currently there is no debt service in the Stormwater Fund.

General Fund: Donna Witt reported only first installment of four for Real Estate Tax has been received for FY 2018, Personal Property tax revenue collected is at 52.1 percent, Consumer Utility Tax revenue is slightly down through November due to mild weather, Communication Sales and Use Tax is following budget, Local Sales Tax revenue is less than budgeted by 2.1 percent, Business License revenue will be coming in since this tax is due May 1, Meals Tax is slightly ahead of budget at 5 months and Lodging Tax is slightly behind projections by \$12,000. She also noted Permit, Fees and Licenses are ahead of budget, Fines and Forfeitures are down considerably due to change in this program, and Interest on Investments are ahead of the budgeted projection for FY 2018.

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

Donna Witt reported the December Sales and Use Tax revenue is significantly below budget and aligned with collections in FY 2016. Consumer Utility Tax revenue was less than budgeted by \$41,000 with the mild weather and Communication Sales and Use Tax revenue continues to trend within budget, but declining each year as anticipated. She noted the General Assembly did not change the services to be included in this tax to reflect current usage of streaming products. Revenues from Meals Tax are within \$96 of budget and Lodging is currently \$98,000 below budgeted overall due to delayed opening in hotels.

11. Roll Call

Council Member Helgeson noted the importance of the City to use zoning as a tool to limit supply of housing to help increase real estate values.

Meeting adjourned at 12:36 p.m.

FY 2018 GENERAL FUND RESERVE FOR CONTINGENCIES

	Reserve for Contingencies	City Manager's Discretionary Funding
BEGINNING BALANCE, JULY 1, 2017	\$1,150,000	\$50,000
Carryforward to FY 2018 Reserve for Contingencies - FY 2018 Adopted Budget	0	
BALANCE	\$1,150,000	\$50,000
APPROPRIATIONS (Second Reading)		
City Manager's Discretionary Fund - City-wide Compensation and Implementation Study		(50,000)
TOTAL APPROPRIATIONS	\$0	(\$50,000)
REMAINING BALANCE	\$1,150,000	\$0
ITEMS INTRODUCED		
Real Estate Assessment Refund to News & Advance (101 Wyndale Drive)	(\$154,792)	
TOTAL INTRODUCED ITEMS	(\$154,792)	\$0
REMAINING BALANCE	\$995,208	\$0
PENDING ITEMS		
2017 (FY 2018) Byrne/Justice Assistance Smart Policing Program Development Grant (\$12,500) - Not Approved	\$0	
TOTAL PENDING ITEMS	\$0	\$0
PROJECTED BALANCE, JUNE 30, 2018	\$995,208	\$0

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **March 27, 2018**

AGENDA ITEM #: **3**

CONSENT:
ACTION: **X**

REGULAR: **X**
INFORMATION:

WORK SESSION:

CLOSED SESSION:
(Confidential)

ITEM TITLE: Real Estate Tax Refund for News & Advance Property

KEY ELEMENTS:

Economic Development ___ Excellent Government Natural and Built Environment ___ Safe Community ___ Vibrant Community

RECOMMENDATION: Adopt a resolution to amend the FY 2018 General Fund budget and appropriate \$154,792 with resources from the General Fund Reserve for Contingencies to refund an overpayment of real estate taxes by the News & Advance for the property at 101 Wyndale Drive for the tax years 2014, 2015, and 2016.

SUMMARY: The News & Advance filed an appeal with the Board of Equalization for the 2017 real estate values at their property located at 101 Wyndale Drive. A review of sales data, comparable income and expense data, as well as, a detailed fee appraisal provided by appellant lead the Assessor to conclude the 2017 Assessment was in error. The 2017 Assessment was lowered from \$10,333,400 to \$5,685,000 and the case was withdrawn from appeal. The News & Advance subsequently hired Wilks Artis, a D.C. Real Estate law firm, to petition for reduction in assessment for (3) prior years based on the 2017 erroneous real estate assessment as provided by State Code 58.1-3980. The assessor proposed to lower the (3) prior years real estate assessment(s) from \$10,333,400 to \$5,685,000; which was accepted by the News and Advance.

The settlement allows the City to avoid the uncertainty of litigation by: (i) saving attorney fees and expenses associated with a trial and possible appeals, and (ii) maintains a good working relationship with the News & Advance.

PRIOR ACTION(S): Finance Committee, March 27, 2018

FISCAL IMPACT: Appropriation of \$154,792 from the General Fund Reserve for Contingencies.

CONTACT(S): Walter Erwin, City Attorney, 455-3973
Jeff Bandy, City Assessor, 455-3821

ATTACHMENT(S): Resolution

REVIEWED BY: bms

RESOLUTION:

BE IT RESOLVED that the FY 2018 General Fund budget is amended and \$154,792 is appropriated with resources from the General Fund Reserve for Contingencies to refund an overpayment of real estate taxes by the News & Advance for the property at 101 Wyndale Drive for the tax years 2014, 2015, and 2016.

Introduced: March 27, 2018

Adopted: April 10, 2018

Certified: _____
Clerk of Council

As required by Section 58.1-3981 of the Code of Virginia, the proposed refund to the News & Advance for the overpayment of real estate taxes has been reviewed and approved by the City Attorney.

March 21, 2018
Date

Walter C. Ewin
City Attorney

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **March 27, 2018**

AGENDA ITEM #: **4**

CONSENT:
ACTION: **X**

REGULAR: **X**
INFORMATION:

WORK SESSION:

CLOSED SESSION:
(Confidential)

ITEM TITLE: Virginia Department of Health Donation - "We Got the Beet" Campaign

KEY ELEMENTS:

Economic Development Excellent Government Natural and Built Environment Safe Community Vibrant Community

RECOMMENDATION: Adopt a resolution to amend the FY 2018 General Fund Budget, appropriating \$40,000 to the Parks and Recreation Fees budget with resources from the Virginia Department of Health to fund the second year of the "We Got the Beet" campaign at the Lynchburg Community Market.

SUMMARY: The Lynchburg Community Market (LCM), Virginia Department of Health/Central Virginia Health District (VDH/CVHD), and Virginia Cooperative Extension (VCE) continue to share the common goal of contributing to a healthy and educated community through providing more access to fresh and locally grown food and wellness programming. The synergetic relationship between these three entities has produced increased participation in the LCM's Supplemental Nutrition Assistance Program (SNAP). This past year, the initial "We Got the Beet" campaign was introduced at the LCM providing service to nearly 400 youth and adults in our area.

Self-reported evaluations showed that 92% of WGTB participants said they were more physically active while 96% reported caring more about eating healthy as a result of participation in the WGBT program. Building upon the successes of last year, VDH/CVHD has agreed to contribute \$40,000 to the City of Lynchburg to fund a second year of the "We Got the Beet" campaign. The goals of this campaign, which will be coordinated with the three agencies listed, continue to focus on educating the public on the benefits and accessibility of healthy and fresh food alternatives available and continuing to increase SNAP participation at the LCM.

The funds will be used to hire two temporary project managers (one each for adult and youth programming), campaign marketing and materials, fees paid to local chefs and instructors for programming to include food purchases from local farmers, wellness educational materials, and the general public promotion of the campaign, the LCM, and local food producers.

PRIOR ACTION(S): March 27, 2017 - Finance Committee

February 14, 2017 - City Council appropriated \$49,686 for the first year of the "We Got the Beet" Campaign.

FISCAL IMPACT: None, no local match required.

CONTACT(S): Jennifer Kennedy, Lynchburg Community Market Manager, 455-4486
Jennifer Jones, Director of Parks and Recreation, 455-5868

ATTACHMENT(S): Resolution

REVIEWED BY: bms

RESOLUTION:

BE IT RESOLVED that the FY 2018 General Fund Budget is amended and \$40,000 is appropriated to the Parks and Recreation Fees budget with resources from the Virginia Department of Health to fund the second year of the "We Got the Beet" campaign at the Lynchburg Community Market.

Introduced: March 27, 2018

Adopted:

Certified:

Clerk of Council

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **March 27, 2018**

AGENDA ITEM #: **5**

CONSENT:
ACTION: **X**

REGULAR: **X**
INFORMATION:

WORK SESSION:

CLOSED SESSION:
(Confidential)

ITEM TITLE: Reaffirm the City's Financial Management Policies

KEY ELEMENTS:

___ Economic Development Excellent Government ___ Natural and Built Environment ___ Safe Community ___ Vibrant Community

RECOMMENDATION: Adopt a Resolution reaffirming City Council's Financial Management Policies (Fund Balance, Debt, Budget, and Investments).

SUMMARY: The Government Finance Officers Association (GFOA) recommends that localities review their financial management policies on no less than a biennial basis. These policies were last reaffirmed by City Council in March 2016.

In consultation with the City's financial advisors, Davenport & Company, LLC (Davenport), staff has reviewed the Financial Management Policies and no changes are recommended. Staff asks City Council to reaffirm the Policies as attached.

PRIOR ACTION(S): The Financial Management Policies were originally adopted by Council on August 10, 1999 and have been periodically revised or reaffirmed

Finance Committee, March 27, 2018

FISCAL IMPACT: As indicated in the Financial Management Policies.

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

ATTACHMENT(S): Resolution
Proposed Financial Management Policies

REVIEWED BY: bms

RESOLUTION:

BE IT RESOLVED that City Council reaffirms the City's Financial Management Policies.

Adopted:

Certified:

Clerk of Council

FINANCIAL MANAGEMENT POLICIES

<i>Policy I</i>	<i>Fund Balance</i>	Adopted August 10, 1999 Reaffirmed November 14, 2000 Revised October 29, 2002 Reaffirmed September 28, 2004 Reaffirmed December 12, 2006 Reaffirmed December 9, 2008 Reaffirmed November 23, 2010 Revised May 10, 2011 Revised February 26, 2013 Revised March 22, 2016
<i>Policy II</i>	<i>Debt Management</i>	Adopted August 10, 1999 Reaffirmed November 14, 2000 Revised October 29, 2002 Reaffirmed September 28, 2004 Revised December 12, 2006 Revised December 9, 2008 Revised November 23, 2010 Revised February 26, 2013 Revised March 22, 2016
<i>Policy III</i>	<i>Budget</i>	Adopted November 14, 2000 Revised October 29, 2002 Reaffirmed September 28, 2004 Revised December 12, 2006 Revised December 9, 2008 Reaffirmed November 23, 2010 Revised February 26, 2013 Revised March 22, 2016
<i>Policy IV</i>	<i>Investment</i>	Adopted September 25, 2001 Revised October 29, 2002 Reaffirmed September 28, 2004 Revised December 12, 2006 Revised December 9, 2008 Reaffirmed November 23, 2010 Revised February 26, 2013 Reaffirmed March 22, 2016

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 anticipated or unplanned variance from these policies, staff 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% 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 City Council. 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, 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.
- Ending fund balance 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. 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, 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.
- 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, 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%, 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, Sewer, Stormwater, Airport, Children's Services Act, Juvenile Detention, and Greater Lynchburg Transit Company Funds.

Third Quarter Review

In March, 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 amendment of the budget 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 a 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. (Price Appreciation) + (Dividends paid) + (Capital gains) = 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 27, 2018**

AGENDA ITEM #: **6**

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: Local Sales and Use 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 2018 has been posted for these five revenue streams.

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 2017 – FY 2018

REVIEWED BY:

**Comparison of Collections
Budget to Actual FY 2017 - FY 2018**

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Adopted FY 2018	Actual FY 2018	Actual FY 2018 to Adopted FY 2018	Actual FY 2018 to Actual FY 2017
SALES & USE TAX								
<i>ADOPTED FY 2018 BUDGET - \$15,465,700</i>								
JULY	\$1,075,816	\$1,131,485	\$1,207,589	\$1,152,527	\$1,161,098	\$1,134,520	(\$26,578)	(\$18,007)
AUGUST ¹	1,098,342	1,299,763	1,198,772	1,267,330	1,276,755	1,248,275	(28,480)	(\$19,055)
SEPTEMBER	1,083,199	1,204,336	1,269,930	1,275,989	1,285,479	1,289,489	4,010	\$13,500
OCTOBER	1,161,965	1,185,608	1,231,666	1,253,143	1,262,463	1,210,820	(51,643)	(\$42,323)
NOVEMBER	1,155,729	1,241,898	1,227,636	1,254,548	1,263,878	1,348,270	84,392	\$93,722
DECEMBER	1,316,419	1,669,810	1,600,507	1,695,286	1,707,894	1,601,584	(106,310)	(\$93,702)
JANUARY	1,103,175	1,073,237	1,055,364	1,070,830	1,078,794	1,122,715	43,921	\$51,885
TOTAL	\$7,994,645	\$8,806,137	\$8,791,464	\$8,969,653	\$9,036,361	\$8,955,673	(\$80,688)	(\$13,980)
CONSUMER UTILITY TAX - ELECTRIC								
<i>ADOPTED FY 2018 BUDGET - \$3,790,000</i>								
JULY	\$325,815	\$321,596	\$332,876	\$328,501	\$329,749	\$335,326	\$5,577	\$6,825
AUGUST	318,738	305,012	333,953	355,434	356,785	327,959	(\$28,826)	(\$27,475)
SEPTEMBER	317,324	317,947	328,411	351,627	352,963	314,864	(\$38,099)	(\$36,763)
OCTOBER	273,646	273,264	281,514	294,038	295,155	297,177	\$2,022	\$3,139
NOVEMBER	280,945	273,353	270,434	274,145	275,187	284,069	\$8,882	\$9,924
DECEMBER	348,750	346,565	321,380	337,930	339,214	348,578	\$9,364	\$10,648
JANUARY	374,541	365,859	346,212	358,976	360,340	407,036	\$46,696	\$48,060
TOTAL	\$2,239,759	\$2,203,596	\$2,214,780	\$2,300,651	\$2,309,393	\$2,315,009	\$5,616	\$14,358
COMMUNICATIONS SALES & USE TAX								
<i>ADOPTED FY 2018 BUDGET - \$3,123,400</i>								
JULY	\$286,999	\$283,594	\$276,750	\$265,192	\$260,283	\$255,279	(5,004)	(\$9,913)
AUGUST	284,691	281,957	270,038	269,212	260,283	263,011	2,728	(\$6,201)
SEPTEMBER	284,249	283,441	273,974	266,593	260,283	258,291	(1,992)	(\$8,302)
OCTOBER	288,830	287,702	277,686	274,702	260,283	273,952	13,669	(\$750)
NOVEMBER	284,176	279,441	271,470	270,909	260,283	259,546	(737)	(\$11,363)
DECEMBER	289,726	282,491	276,524	268,968	260,283	258,380	(1,903)	(\$10,588)
JANUARY	264,960	275,361	271,160	265,710	260,283	286,194	25,911	\$20,484
TOTAL	\$1,983,631	\$1,973,987	\$1,917,602	\$1,881,286	\$1,821,981	\$1,854,653	\$32,672	(\$26,633)

**Comparison of Collections
Budget to Actual FY 2017 - FY 2018**

	Actual Collected FY 2015 ³	Actual Collected FY 2016 ³	Actual Collected FY 2017 ³	Adopted FY 2018	Actual Assessed FY 2018	Actual Assessed FY 2018 to Adopted FY 2018	Actual Collected FY 2018 ³	Actual Collected FY 2018 to Adopted FY 2018	Actual Collected FY 2018 to Assessed FY 2018
MEALS TAX									
<i>ADOPTED FY 2018 BUDGET - \$14,400,0</i>									
JULY ²	\$970,597	\$1,046,770	\$1,088,474	\$1,122,617	\$1,132,444	\$9,827	\$1,109,545	(\$13,072)	(\$22,899)
AUGUST	1,119,585	1,213,559	1,098,748	1,207,908	1,230,475	22,567	1,140,836	(67,072)	(89,639)
SEPTEMBER	1,159,391	1,167,356	1,243,540	1,222,863	1,252,868	30,005	1,295,882	73,019	43,014
OCTOBER	1,119,430	1,152,017	996,549	1,216,067	1,246,579	30,512	1,249,486	33,419	2,907
NOVEMBER	1,099,028	1,156,651	1,382,308	1,136,983	1,172,731	35,748	1,170,367	33,384	(2,364)
DECEMBER	1,117,510	1,224,108	1,238,056	1,261,720	1,275,027	13,307	1,261,816	96	(13,211)
JANUARY	963,288	908,712	1,112,427	1,037,362	1,099,194	61,832	1,088,584	51,222	(10,610)
TOTAL	\$7,548,829	\$7,869,173	\$8,160,102	\$8,205,520	\$8,409,318	\$203,798	\$8,316,516	\$110,996	(\$92,802)
LODGING TAX									
<i>ADOPTED FY 2018 BUDGET - \$2,783,000</i>									
JULY ²	\$180,395	\$180,808	\$207,361	\$231,917	\$249,245	\$17,328	\$248,422	\$16,505	(\$823)
AUGUST	185,402	202,217	167,929	\$231,917	223,881	(8,036)	224,761	(7,156)	880
SEPTEMBER	173,875	206,009	215,545	\$231,917	222,136	(9,781)	222,577	(9,340)	441
OCTOBER	209,788	160,131	214,418	\$231,917	245,586	13,669	245,408	13,491	(178)
NOVEMBER	144,988	177,048	222,988	\$231,917	207,729	(24,188)	206,772	(25,145)	(957)
DECEMBER	119,891	130,150	150,743	\$231,917	144,933	(86,984)	144,969	(86,948)	36
JANUARY	108,523	109,217	116,370	\$231,917	177,373	(54,544)	178,239	(53,678)	866
TOTAL	\$1,122,862	\$1,165,580	\$1,295,354	\$1,623,419	\$1,470,883	(\$152,536)	\$1,471,148	(\$152,271)	\$265

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

² 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.

³ Meals and Lodging Tax data includes columns titled "Actual Collected ." The amounts in these columns include all revenue received per month regardless of whether the