Summary of Financial and Budget Policy Compliance

The City of Suffolk has established financial policies to ensure prudent financial practices and accountability of public funds managed by the City. The financial policies include guidelines for Revenues, Budget, Capital Improvements Planning, and Debt. A Finance Committee created by the Suffolk City Council meets on a regular basis to review and monitor compliance. As demonstrated in the attached copy of the City's financial policies and compliance summary, the City of Suffolk is achieving compliance with its financial policies. Highlights of each major compliance area include:

Revenues

- ✓ City fees and charges have been reviewed and updated in the FY 13 Operating & Capital Budget.
- ✓ Revenue collections are strong with collection rates between 96% to 99%.

Budget

- ✓ The FY 13 Operating & Capital Budget is balanced with current revenues supporting all current expenditures.
- ✓ A five year projection of revenues and expenditures is included in the FY 13 Operating & Capital Budget.
- ✓ The City has met the Undesignated General Fund balance policy goal of 12% of Governmental Fund Expenditures. The City's Undesignated General Fund balance is 12.6% of Governmental Fund Expenditures.
- ✓ The projected balance in the Risk Fund is anticipated to be sufficient to provide the required support in the FY 13 Operating and Capital Budget.

Capital Improvements Planning

- ✓ A 10 year Capital Improvements Plan has been prepared and adopted for use in the FY 13 budget year.
- ✓ The FY 13 Operating and Capital Budget includes 3.03% of General Fund departmental expenditures in cash funding to achieve the policy goal of a 3% pay-as-you-go capital funding level.

Debt

- ✓ Debt as a percentage of assessed value is 2.04% for FY 13, below the 4% policy ceiling.
- ✓ Debt as a percentage of general government expenditures is 9.06% for FY 13, below the 10% policy ceiling.

CITY OF SUFFOLK

Financial Policies

Adopted: December 5, 2007
Revised: January 6, 2010

***FY 13' Budget Status:* Responses where appropriate for all compliance requirements for FY 13' are denoted in red.**

POLICY PURPOSE

The City of Suffolk (the "City") and its governing body, the City Council (the "Council"), is responsible to the City's citizens to carefully account for all public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public, including the provision and maintenance of facilities. The following financial policies and guidelines establish the framework for the City's overall fiscal planning and management.

1.01 Policy Goals

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practices of the City. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective fiscal policy:

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

1.02 Policy Implementation and Coordination

The City has established a Finance Committee that meets approximately monthly to collectively review financial matters of the City, including the monitoring of financial activity cash and investment management, and compliance with certain policies outlined herein. Members of the Finance Committee include those individuals stipulated by ordinance adopted by City Council.

1.03 Review and Revision

These polices will be reviewed for appropriateness and comparability with AAA rated jurisdictions every three years or more frequently if a need for review is identified.

REVENUES

2.01 Revenue Diversification

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

Current revenues will fund current expenditures and a diversified and stable revenue system will be maintained to protect programs.

FY 13' Budget Status: *Local revenues are diversified and projected to increase 2% in FY 13'. Local revenue sources driving this increase include business license (24%), meals (20%), public service corporation taxes (16%), utility (13%), lodging (10%), and personal property (5%).*

2.02 Fees and Charges

All fees established by the City for licenses, permits, fines, services, applications and other miscellaneous charges shall be set to recover all or a portion of the City's expense in providing the attendant service. These fees shall be reviewed annually with the development of the annual operating budget.

FY 13' Budget Status: *All city fees and charges are reviewed annually with revisions provided to recoup a fair portion of the City's expenses associated with the service provision. Various fee increases and adjustments are recommended in FY 13' to include the markup on fuel sales at the Suffolk Executive Airport, the Emergency Medical Services (EMS) fee for Advanced Life Support Level II and loaded patient mileage, the jail admission fee, the return check fee, and public utility water and sewer rates. New fees are recommended including an airport use fee for daily use of the Suffolk Executive Airport, park shelter rental fees at Cypress Park and Lake Kennedy Park, a site plan waiver request fee, transfer/entry fee-real estate-deeds of partition, an elevator compliance card fee, public utilities engineering site plans/site plans amendments and single family grinder pump review/inspection, ear bud rentals for computer usage at public libraries, rental fees for the new visitor center pavilion, and fees for tourism guided nature walks and Nansemond River canoe tours.*

2.03 Revenue Collections

The City will strive to achieve an overall property tax collection rate of 100%.

FY 13' Budget Status: *The City continues to maintain strong local collection rates ranging from 96% to 99% for local taxes and fees with collection rates documented annually in the Comprehensive Annual Financial Report.*

2.04 Use of Fund Balance

The City's General Fund equity balance will be utilized to provide sufficient working capital in anticipation of current budgeted revenues and to finance unforeseen emergencies without borrowing.

The General Fund equity of the City (Undesignated Fund Balance) will not be used to finance current operations.

FY 13' Budget Status: *The City budget has been balanced with current General Fund revenues supporting all current General Fund expenditures for FY 13'.*

2.05 Restricted Revenue

Restricted revenue (such as Medicaid or Asset Forfeiture funds) shall only be used for the purpose intended and in a fiscally responsible manner.

FY 13' Budget Status: *The City budget utilizes restricted revenues strictly for the designated purpose and restricts all unspent balances available at year end for carryover to the following fiscal year for continued identified spending purposes.*

BUDGET

3.01 Balanced Budget

The provisions of the Code of Virginia shall control the preparation, consideration, adoption and execution of the budget of the City. In addition, the City Charter requires the budget to be balanced with planned expenditures equal to estimated revenues.

The City will annually adopt and execute a budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. The budget shall control the levy of taxes and the expenditure of money for all City purposes during the ensuing fiscal year. The City budget shall be balanced within all available operating revenues, including the fund balance, and adopted by the City Council.

FY 13' Budget Status: *The FY 13' budget is balanced for all funds operated by the City denoting appropriate tax rates where applicable to sustain operations. Budget and tax rate ordinances have been appropriately prepared authorizing the appropriation of all required funds.*

3.02 Use of Current Revenues to Support Current Expenditures

Ongoing and stable revenues will be used to support ongoing operating costs.

FY 13' Budget Status: *The budget is dependent on stable revenues and conservative revenue estimates to support operations.*

3.03 Use of One-time Revenue and One-time Expenditure Savings

The use of one-time revenues and one-time expenditure savings (excess cash balances) will be used for non-recurring expenditures.

FY 13' Budget Status: *All one time revenues are designated to support one-time expenditures.*

3.04 Review of Fees and Charges

Fees established by the City for licenses, permits, fines, services, applications and other miscellaneous charges shall be set to recover all or a portion of the City's expense in providing the attendant service and reviewed annually with the development of the annual operating budget.

FY 13' Budget Status: *All city fees and charges are reviewed annually with revisions provided to recoup a fair portion of the City's expenses associated with the service provision.*

3.05 Revenue and Expenditure Projections

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

FY 13' Budget Status: *A 5 year projection of revenues and expenditures has been prepared based on conservative assumptions, planned capital improvements and related debt service and operating costs noting projected fund balance levels and required real estate tax rate adjustments. This report is provided as an appendix to the budget.*

3.06 Budget Performance Monitoring

The Budget Department will maintain ongoing contact with the departmental fiscal officers during the process of the budget execution. Expenditure and revenue projections will be developed quarterly and reviewed with Departmental Directors, the Finance Committee of the City Council, the City Manager, and the City Council. The City Manager through the Budget and Finance Departments will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget.

FY 13' Budget Status: *Quarterly revenue and expenditure projections have been provided beginning with FY 08' to Departmental Directors, the Finance Committee, the City Manager, and City Council noting positive results for all funds. All required budget adjustments have been reviewed and approved by the City Manager or designee to comply with budget requirements.*

3.07 Maintenance of Capital Assets

The budget should provide sufficient funds for regular repair and maintenance of capital assets.

FY 13' Budget Status: *The operating and capital budget provides adequate repair and maintenance funds to support City capital assets.*

3.08 Fund Balance Levels

The City will employ sound financial management principles to include the establishment of an undesignated fund balance sufficient to maintain required working capital and provide a reserve for unanticipated expenditures or emergencies, revenue shortfalls, and other non-recurring uses.

The ratio of Undesignated General Fund balance as a percentage of Budgeted Governmental Funds Expenditures (net of the General Fund Contribution to Schools, transfer to other Governmental Funds, and Capital Projects Fund Expenditures) plus budgeted expenditures in the School Operating and Food Service Funds indicates the ability of the City to cope with unexpected financial problems or emergencies. The larger the Undesignated General Fund balance, the greater the City's ability to cope with financial emergencies and fluctuations in revenue cycles. The City has established a target rate of 12% at the close of each fiscal year as computed on the upcoming budget year.

Once the undesignated general fund balance target is achieved by the City, it is intended to be maintained for the upcoming fiscal year from prior year surpluses and budgeted additions as available before any other needs are addressed. In the event Undesignated Fund Balance is required to be drawn below the 12% target rate due to an emergency (such as a natural disaster) or due to severe economic circumstances, the City will develop a plan to restore the Undesignated Fund Balance over the ensuing two to three years.

Compliance with fund balance policy will be reviewed and reported to City Council at least annually in conjunction with the development of the operating budget and with any significant budget amendments made during the fiscal year.

FY 13' Budget Status: *The FY 12' undesignated General Fund balance is projected to exceed the targeted 12% by the close of the fiscal year at 12.6%.*

3.09 Self-Insurance Rate Stabilization Fund

The City will strive to maintain a rate stabilization fund for its insured risks in an amount equal to 20% of anticipated annual premium costs. This rate stabilization fund may be reduced or increased by management based on professional judgment and anticipated claims cost estimates.

FY 13' Budget Status: *The projected balance in the Risk Fund at June 30, 2012 is anticipated to be sufficient to provide the required $2,000,000 in rate stabilization funds to support the FY 13' budget.*

CAPITAL IMPROVEMENTS PLANNING

4.01 Capital Improvement Program

In order to prepare and plan for upcoming capital needs, comply with debt ratio targets, schedule debt issuance, and systematically improve capital infrastructure, the City will annually prepare and adopt a minimum five-year Capital Improvement Plan.

The adopted Capital Improvement Plan will include major capital improvements and identify estimated revenue sources and annual operational costs for facilities to include anticipated debt service requirements.

Capital improvements do not include routine maintenance on existing capital assets.

FY 13' Budget Status: *A 10 year Capital Improvements Plan is prepared and updated annually providing 5 years of detailed projects, revenue sources, debt requirements and annual operating costs. This plan is prepared by the City Manager and reviewed by a committee to include members of the Planning Commission and the City's elected Finance Committee members. The Plan is reviewed, edited, and recommended by the Planning Commission to the City Council who in turn, reviews, edits and adopts the Plan for consideration of year one projects in the upcoming budget proposal. A current CIP was adopted by Council in February 2012 for use in the FY 13' budget.*

4.02 Pay-As-You-Go Capital Improvement Funding

The City will develop an escalation plan to accomplish an annual allocation of an amount equal to 3% of the General Fund departmental expenditures (excluding transfers out, grants, fund balance and reserve allocations, debt service, and respective flow-through expenditures) to pay-as-you-go-capital improvements annually.

The escalation plan will begin with the FY 08 adopted budget and shall be increased annually for the ensuing five (5) year period until the 3% target is achieved.

FY 13' Budget Status: *The budget includes $3,611,000 in cash funded projects or 3.03% of General Fund departmental expenditures for FY 13'. This represents an increase of $143,210 over the prior year achieving policy compliance of 3% as required for FY 13'.*

DEBT

The City Council generally follows the guidelines listed below in making financial decisions on debt issuance. Adherence to these guidelines allows the City to plan for the necessary financing of capital projects while maintaining credit worthiness. In addition, continued adherence to these policies will ensure the City's strong financial position.

The City shall use an objective analytical approach to determine whether it can afford new or additional general purpose debt. This process shall use the City's standards of affordability. These standards include the measures of debt service payments as a percent of current expenditures and debt as a percent of taxable real estate value.

5.01 Revenue Anticipation Notes (RANS)

The City does not intend to issue tax or revenue anticipation notes (RANS) to fund government operations but rather to manage cash in a fashion that will prevent any borrowing to meet working capital needs.

The City may issue RANS in an extreme emergency beyond the City's control or ability to forecast when the revenue source will be received subsequent to the timing of funds needed. Such issuances will be for a period not to exceed a one year period.

5.02 Bond Anticipation Notes (BANS)

The City may issue Bond Anticipation Notes (BANS) in expectation of General Obligation or Revenue Bonds when cash is required in order to initiate or continue a capital project or when long-term markets do not appear appropriate but have a clear potential for improvement within the designated BAN time frame.

The City will not issue Bond Anticipation Notes (BANS) for a period beyond two years. If the City issues a bond anticipation note for a capital project, the BAN will be converted to a long-term bond or redeemed at its expiration.

5.03 Letters of Credit

The City may enter into a letter-of-credit (LOC) agreement when such an agreement is deemed prudent and advantageous. The City will prepare and distribute a request for proposals to qualified banks which includes terms and conditions that are acceptable to the City.

5.04 Lease Purchase Obligations

Lease purchase and master lease obligations, including certificates of participation or lease revenue bonds, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation.

5.05 Public Private Partnerships

The City recognizes the value of developing public-private partnerships. As such, public-private partnerships financings that require the City to provide capital or credit enhancement to a project will be considered in light of the following:

- The project is multi-faceted requiring coordinated and/or accelerated development;
- The project is non-traditional with mixed use of public and private components;
- The project calls for the bundling of design, construction and operation phases; or
- There is an urgent need to construct multiple facilities or other public infrastructure simultaneously to keep pace with a rapidly growing population.
- The project has undergone a rigorous cost-benefit analysis by City Staff (or agents employed by the City for such purpose). If the project ultimately requires City credit enhancement, such obligations will be treated as if debt by the City.

5.06 Compliance with Legal Requirements

Pursuant to the Constitution of Virginia (the Constitution), the City is authorized to issue bonds secured by a pledge of its full faith and credit and unlimited taxing power. There is no requirement in the Constitution, the Virginia Code or the City Charter that the issuance of general obligation bonds be subject to the approval of voters of the City at referendum. The issuance of general obligation bonds is subject to a constitutional limitation of ten percent (10%) of the assessed value of taxable real property. The City's Charter further limits the issuance of general obligation bonds to seven percent (7%) of the assessed value of taxable property.

5.07 Debt Ratio Policies

	Ceiling	FY 12' Status
Debt as a Percentage of Assessed Value This ratio indicates the relationship between the City's debt and the total taxable value of real and personal property in the City. It is an important indicator of the City's ability to repay debt, because property taxes are the source of the City's revenues used to repay debt. A small ratio is an indication that the City will be better able to withstand possible future economic downturns and continue to meet its debt obligations.	4%	2.04%
Debt as a Percentage of General Government Expenditures This ratio is a measure of the City's ability to repay debt without hampering other City services. A smaller ratio indicates a lesser burden on the City's operating budget. The numerator shall include debt that is not self-supporting from a user fee revenue stream. A self-supporting revenue stream is defined as a revenue stream	10%	9.06%

that provides coverage of all debt service obligations without general fund support (to include tax assessment districts and funds supported by committed state revenues in support of such debt). Any long term financing lease obligations which may be subject to annual appropriation by the City will also be included in the calculations of tax-supported debt service. General governmental expenditures are expenditures reported in the City's governmental funds (excluding the General Fund Contribution to Schools and the Capital Projects Fund) and expenditures reported in the School Operating and Food Service Funds.

Compliance with the above debt policy ratios will be calculated each fiscal year in conjunction with the budget development process and provided to Council with the proposed annual budget.

5.08 Long Term Debt Policy

The City will use debt financing for capital improvement projects and unusual equipment purchases under the following circumstances:

A. When the project is included in the City's capital improvement program and/or is generally in conformance with the City's Comprehensive Plan.
B. When the project is not included in the City's Capital Improvement Program, but it is an emerging critical need whose timing was not anticipated in the Capital Improvement Program, or it is a project mandated immediately by state or federal requirements.
C. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
D. When there are designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

The following criteria will be used to evaluate funding options for capital improvements:

A. Factors that favor pay-as-you-go:
   1. Current revenues and adequate fund balances are available.
   2. Project phasing is feasible.
   3. Debt levels would adversely affect the City's credit rating.
   4. Financial market conditions are unstable or present difficulties in marketing the sale of long-term financing investments.

B. Factors that favor long-term financing:
   1. Revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with the highest possible credit rating.
   2. The project for which financing is being considered is of the type that will allow the City to maintain the highest possible credit rating.
   3. Market conditions present favorable interest rates and demand for municipal financings.

4. A project is mandated by state or federal requirements and current revenues and fund balances are insufficient to pay project costs.
5. A project is immediately required to meet or relieve capacity needs.

There are many different types of long-term debt instruments available. Depending on the specific circumstances, the City will consider using the following types of financing instruments:

- General Obligation Bonds
- General Obligation Bonds sold to Virginia Public School Authority for School Capital Projects
- Revenue Bonds
- Certificates of Participation
- Lease Revenue Bonds
- Selected State Pooled-Borrowing Programs for Utility Revenue Bonds, Including Those of the Virginia Resources Authority.

5.09 Bond Structure

The City shall establish all terms and conditions relating to the issuance of bonds, and will invest all bond proceeds pursuant to the terms of the City's Investment Policy. Unless otherwise authorized by the City, the following shall serve as bond requirements:

1. **Term.** All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event will the term exceed thirty (30) years.
2. **Capitalized Interest.** From time to time certain financings may require the use of capitalized interest from the issuance date until the City has beneficial use and/or occupancy of the financed project. Interest shall not be funded (capitalized) beyond three years or a shorter period if further restricted by law. Interest earnings may, at the City's discretion, be applied to extend the term of capitalized interest but in no event beyond the term allowed by law.
3. **Debt Service Structure.** Debt issuance shall be planned to achieve relatively equal payment of principal (declining debt service) while matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to make existing overall debt service level. The City may elect a less rapid or other debt service structure, such as level debt service at its discretion.
4. **Call Provisions.** In general, the City's debt will include an early redemption (or "call") feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful, documented evaluation by the City in conjunction with its financial advisor with respect to the value of the call option.
5. **Original Issue Discount.** An original issue discount will be permitted if the City determines that such discount results in a lower true interest cost on the bonds and that the use of an original issue discount will not adversely affect the project funding.
6. **Deep Discount Bonds.** Deep discount bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future

refinancings as a result of the lower-than-market coupon associated with deep discount bonds.

7. **Derivative Structures.** Alternative, non-traditional financing structures such as derivatives are becoming more common in the municipal market. Structured properly these products frequently provide a means for the City to achieve its goals in a cost effective manner.

   The City will consider the use of derivatives as a hedge against future interest rate risk or to create "synthetic" fixed rate or variable rate debt, when appropriate. The City will not use derivative structures for speculative or investment purposes. The City will consider the use of derivative structures when it is able to gain a comparative borrowing advantage, and is able to quantify and understand potential risks. Prior to the use of such structures, the City will consider the adoption of a comprehensive Swap and Derivative Management Plan that is consistent and does not conflict in principle with this governing policy. Prior to use of a derivative structure, the City will provide written communication to City Council describing potential risks associated with each proposed derivative structure.

5.10 Variable Rate Debt

To maintain a predictable debt service burden, the City may give preference to debt that carries a fixed interest rate. The City, however, may consider variable rate debt. The percentage of variable rate debt outstanding (excluding debt which has been converted to synthetic fixed rate debt) shall not exceed 20% of the City's total outstanding debt and will take into consideration the amount and investment strategy of the City's operating cash. The City will consider issuing variable rate debt to:

a) Match Asset and Liabilities: By issuing variable rate debt the City matches variable interest rates to its short-term investment assets.

b) Potentially Lower Debt Service Costs: Historically variable interest rates are less than fixed rate cost of capital.

c) Add Flexibility and Diversity to the City's Debt Structure: Variable rate bonds are traditionally callable every 30 days and can generally be refunded on a fixed rate basis to take advantage of low fixed rates and open up variable rate capacity for higher rate environments.

In determining its use of variable rate debt, the City will utilize an analysis from the City's Financial Advisor evaluating and quantifying the risks and returns involved in the variable rate financing.

5.11 Refinanced Outstanding Debt

The Director of Finance with assistance from the City's Financial Advisor will have the responsibility to analyze outstanding bond issues for refunding opportunities. The City will consider the following issues when analyzing possible refunding opportunities:

1. **Refunding Policy.** The City establishes a minimum aggregate present value savings threshold of 3% of the refunding bond principal amount. The present value savings will be

net of all costs related to the refinancing. Debt service savings may be taken in equal amounts over time or on an upfront or deferred basis, at the City's discretion.

2. **Restructuring.** The City will refund debt when it is in the best financial interest of the City to do so. Such refundings will be limited to restructuring to meet unanticipated revenue expectations, achieve costs savings, mitigate irregular debt service payments release reserve funds or remove unduly restrictive bond covenants.

3. **Term of Refunding Issues.** The City will refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

4. **Escrow Structuring.** The City shall utilize the least costly securities available in structuring refunding escrows. A certificate will be provided by a third party agent stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.

5. **Arbitrage.** The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refundings. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

5.12 Methods of Issuance

The City will determine the method of issuance on a case-by-case basis.

1. **Competitive Sale.** In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official note of sale.

2. **Negotiated Sale.** The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:

   a. Bonds issued as variable rate demand obligations
   b. A structure which may require a strong pre-marketing effort such as a complex transaction or a "story" bond
   c. Size of the issue which may limit the number of potential bidders
   d. Market volatility is such that the City would be better served by flexibility in timing a sale in a changing interest rate environment

3. **Private Placement.** From time to time the City may elect to privately place its debt. Such placement shall be considered if other methods are not viable.

5.13 Bond Insurance

The City may purchase bond insurance when such purchase is deemed prudent and advantageous. Use of bond insurance shall be based on such insurance being less costly than the present value of the difference between the interest on insured bonds versus uninsured bonds.

In the case of a competitive sale, the City may permit bidders for its bonds to purchase bond insurance if such insurance will enhance the market reception and lower the interest rate on the City's bonds. The City will submit an application for pre-qualification for insurance to facilitate bidders' ability to purchase bond insurance. The winning bidder in a competitive sale will bear any associated cost with such enhancement.

In the instance of a negotiated sale, the City will solicit quotes for bond insurance from interested providers. The City will select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the City.

5.14 Use of Special Districts

The City may consider using special districts such as Tax Increment Financing Districts, Community Development Authorities and special taxing districts to finance projects that:

- Strengthen the employment and economic base of the City;
- Increase property values and tax revenues;
- Reduce poverty;
- Create economic stability;
- Facilitate economic self-sufficiency; or
- Assist in implementing the City's economic development strategies.

Before using such districts, the City will consider the fiscal impact, the market feasibility and credit implications of the project or district.

5.15 Debt Service Reserves

If necessary, the City may establish a reserve fund funded from bond proceeds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies. The City may purchase reserve equivalents (i.e., a reserve fund surety or letter of credit) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

5.16 Underwriter Selection

Senior Manager Selection. The City shall select a senior manager for any proposed negotiated sales. The selection criteria shall include but not be limited to the following:

- The firm's ability and experience in managing transactions similar to that contemplated by the City

- Prior knowledge and experience with the City
- The firm's ability and willingness to risk capital and demonstration of such risk and capital availability
- Quality and experience of personnel assigned to the City's engagement
- Financing plan presented
- Underwriting fees

Co-Manager Selection. Co-managers may be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.

Selling Groups. The City may establish selling groups in certain transactions. To the extent that selling groups are used, the Director of Finance at his or her discretion, may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.

Underwriter's Counsel. In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with input from the City.

Underwriter's Discount. The Director of Finance with assistance from the City's financial advisor will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Director of Finance will determine the allocation of underwriting liability and management fees.

The allocation of fees will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties by the Director of Finance. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

Evaluation of Underwriter Performance. The City will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

Following each sale, the Director of Finance shall provide a report to the City Manager and City Council on the results of the sale.

Syndicate Policies. For each negotiated transaction, the Director of Finance will prepare syndicate policies that will describe the designation policies governing the upcoming sale. The Director of Finance shall ensure receipt of each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.

Designation Policies. To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:

- Equitably allocate bonds to other managers and the selling group
- Comply with MSRB regulations governing the priority of orders and allocations
- Within 10 working days after the sale date, submit to the Director of Finance a detail of orders, allocations and other relevant information pertaining to the City's sale.

5.17 Consultants

Financial Advisor. The City shall select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:

- Experience in providing consulting services to entities similar to the City
- Knowledge and experience in structuring and analyzing bond issues
- Experience and reputation of assigned personnel
- Fees and expenses

Conflicts of Interest. The City requires that its consultants and advisors provide objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts on interest.

Bond Counsel. City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The Bond Counsel will be selected by the City.

Disclosure by Financing Team Members. All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

5.18 City Financial Disclosure

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments, and the general public to share clear, comprehensive, and accurate financial information. The City is committed to meeting secondary market disclosure requirements on a timely and comprehensive basis.

UTILITY FUND

It is the intent to reflect the financial policies of the Utility Fund to provide for adequate cash management and bond coverage for the operation of the system.

6.01 Independence

The Utility Fund will maintain financial independence from the General Fund by:

a. Continuing the funding of all Utility Enterprise Fund revenue requirements from the Utility Enterprise Fund thereby receiving no financial support from the General Fund.
b. Issuing self-supporting debt payable solely from the Utility Enterprise Fund.

6.02 Unrestricted Cash and Long Term Investments Balance

It is the intent of the Utility Enterprise Fund to have adequate cash reserves to provide for ninety days of operating activity including debt service. Current unrestricted cash and cash equivalent balances plus operating long term investments will be at a target percentage rate of 25% of the operating expenses less depreciation expense plus current debt expenses (principal and interest). If the Unrestricted Cash and Long Term Investments Balance fall below the target level, the utility system will have twenty four months to bring the balance back in line with the target level.

6.03 Amortization

The Utility Fund will continue to amortize bond issues so the useful life of the project being financed is not exceeded.

6.04 Debt Service Coverage Ratio

Net Revenues should be at least 1.30 times the annual debt service requirement. Net Revenues shall be defined as operating revenues plus availability charges plus interest income plus contributions from Western Tidewater Water Authority less operating expenses plus depreciation and amortization. Excess revenues will be available to first build and maintain the Utility enterprise Cash and Cash Equivalents plus Long Term Investments then secondly to provide equity funding for future capital projects. Over time adherence to this policy will reduce the overall amount of debt issued by the City for various utility projects.

6.05 Asset Replacement and System Extension

After the completion of the City's new water treatment facility (estimated completion is 2015), the City will review the amount of funds being set aside for replacement and/or extension of all Utility system assets such that new assets will not be 100 percent debt financed.