

# CITY OF LAKELAND TENNESSEE



## FINANCIAL POLICIES MANUAL

ADOPTED: APRIL 9, 2020





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## 1. **Governance**

### 1.1. **Authority and Adoption**

- 1.1.1. The Board of Commissioners is responsible for legislation, policy formulation, and overall direction setting of the City of Lakeland, Tennessee (the "City"). This includes the approval of financial policies which establish and direct the City's operations. The City Manager is responsible for carrying out the policy directives of the Board of Commissioners and managing the day-to-day operations of the City. The policies contained herein shall be administered on behalf of the Board of Commissioners by the City Manager and the Finance and Human Resources Director.
- 1.1.2. The financial policies contained herein shall be adopted by resolution of the Board of Commissioners.

### 1.2. **Amendments**

- 1.2.1. As necessary, the City Manager and/or the Finance and Human Resources Director will present recommendations for any amendments, deletions, additions, improvements, or clarifications to these financial policies. For changes to these policies to be effective, the Board of Commissioners must take formal action to do so and adopt a resolution or ordinance, as applicable, in which the policy is amended.
- 1.2.2. With the formal resolution to adopt the policies contained herein, the following previous resolutions are hereby amended and/or superseded:
  - 1.2.2.1. Resolution 2016/12-103 – *A Resolution Adopting a Revised Debt Management Policy for the City of Lakeland*
  - 1.2.2.2. Resolution 2016/12-104 – *A Resolution Adopting a Fund Balance Policy for the City of Lakeland*
- 1.2.3. The following financial policies were approved by the Board of Commissioners via Ordinance, and are not amended or superseded by the resolution to adopt this document – amendment of these Ordinances, as and if so desired, shall require the approval of an ordinance by the Board of Commissioners, upon public notice and two readings:
  - 1.2.3.1. Ordinance 06-96 – *An Ordinance of the City of Lakeland Providing Standards for Ethics and the Procedure for Handling Complaints of Alleged Violations*
  - 1.2.3.2. Ordinance 08-124 – *An Ordinance of the City of Lakeland Amending Section 5-101 of the Lakeland City Code to Provide for Official Depositories for City Accounts*
  - 1.2.3.3. Ordinance 08-128 – *An Ordinance Amending Ordinance 07-105 Pertaining to Sanitary Sewer User Rates, Sanitary Sewer Recapture Fees, Stormwater User Fees, and Sanitation Fees* (Remaining un-amended section of Ordinance related to Stormwater User Fees)
  - 1.2.3.4. Ordinance 13-184 – *An Ordinance of the City of Lakeland to Establish a Municipal Purchasing Policy for the City of Lakeland and Amend Purchasing Limits*
  - 1.2.3.5. Ordinance 13-186 – *An Ordinance Establishing Calendar Year 2013 Sanitation Collection Rates for Lakeland Residential Customers*
  - 1.2.3.6. Ordinance 17-249 – *An Ordinance Establishing Sewer User Rates and Sewer Charge Adjustments*
- 1.2.4. Should the Board of Commissioners approve 1) a resolution or resolutions changing the financial policies contained herein or 2) an ordinance or ordinances changing information in the above section 1.2.3., the City Manager and Finance and Human Resources Director will update this Financial Policies Manual with the approved changes.

### 1.3. **Ethics (Ordinance 06-96)**

#### 1.3.1. **Applicability**

- 1.3.1.1. This chapter is the code of ethics for personnel of the municipality (the City of Lakeland). It applies to all full-time and part-time elected or appointed officials and employees, whether compensated or not, including

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those of any separate board, commission, committee, authority, corporation, or other instrumentality appointed or created by the municipality. The words “municipal” and “municipality” include these separate entities.

## 1.3.2. Definition of “personal interest”

1.3.2.1. For purposes of 1.3.3. and 1.3.4., “personal interest” means:

1.3.2.1.1. Any financial, ownership, or employment interest in the subject of a vote by a municipal board not otherwise regulated by state statutes on conflicts of interests; or

1.3.2.1.2. Any financial, ownership, or employment interest in a matter to be regulated or supervised; or

1.3.2.1.3. Any such financial, ownership, or employment interest of the official's or employee's spouse, parent(s), stepparent(s), grandparent(s), sibling(s), child(ren), or stepchild(ren).

1.3.2.2. The words “employment interest” include a situation in which an official or employee or a designated family member is negotiating possible employment with a person or organization that is the subject of the vote or that is to be regulated or supervised.

1.3.2.3. In any situation in which a personal interest is also a conflict of interest under state law, the provisions of the state law take precedence over the provisions of this chapter.

## 1.3.3. Disclosure of personal interest by official with vote

1.3.3.1. An official with the responsibility to vote on a measure shall disclose during the meeting at which the vote takes place, before the vote and so it appears in the minutes, any personal interest that affects or that would lead a reasonable person to infer that it affects the official's vote on the measure. In addition, the official may recuse himself or herself from voting on the measure.

## 1.3.4. Disclosure of personal interest in nonvoting matters

1.3.4.1. An official or employee who must exercise discretion relative to any matter, other than casting a vote, and who has a personal interest in the matter that affects or that would lead a reasonable person to infer that it affects the exercise of the discretion must disclose, when possible, the interest on a form provided by and filed with the recorder.

## 1.3.5. Acceptance of gratuities, etc.

1.3.5.1. An official or employee may not accept, directly or indirectly, any money, gift, gratuity, or other consideration or favor of any kind from anyone other than the municipality:

1.3.5.1.1. for the performance of an act, or refraining from performance of an act, that he/she would be expected to perform, or refrain from performing, in the regular course of his/her duties; or

1.3.5.1.2. that might reasonably be interpreted as an attempt to influence his/her action, or reward him/her for past action, in executing municipal business.

## 1.3.6. Use of information

1.3.6.1. Any official or employee may not disclose any information obtained in his/her official capacity or position of employment that is made confidential under state or federal law except as authorized by law.

1.3.6.2. An official or employee may not use or disclose information obtained in his/her official capacity or position of employment with the intent to result in financial gain for himself/herself or any other person or entity.

## 1.3.7. Use of municipal time, facilities, etc.

1.3.7.1. An official or employee may not use or authorize the use of municipal time, facilities, equipment, or supplies for private gain or advantage to himself/herself.

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1.3.7.2. An official or employee may not use or authorize the use of municipal time, facilities, equipment, or supplies for private gain or advantage to any private person or entity, except as authorized by legitimate contract or lease that is determined by the governing body to be in the best interests of the municipality.

## 1.3.8. Use of position or authority

1.3.8.1. An official or employee may not make or attempt to make private purchases, for cash or otherwise, in the name of the municipality.

1.3.8.2. An official or employee may not use or attempt to use his/her position to secure any privilege or exemption for himself/herself or others that is not authorized by the charter, general law, or ordinance or policy of the municipality.

## 1.3.9. Outside employment

1.3.9.1. An official or employee may not accept or continue any outside employment if the work unreasonably inhibits the performance of any affirmative duty of the municipal position or conflicts with any provision of the municipality's charter or any ordinance or policy.

## 1.3.10. Ethics complaints

1.3.10.1. The City Attorney is designated as the ethics officer of the municipality. Upon the written request of an official or employee potentially affected by a provision of this chapter, the City Attorney may render an oral or written advisory ethics opinion based upon this chapter and other applicable law.

1.3.10.2. Except as otherwise provided in this subsection, the City Attorney shall investigate any credible complaint against an appointed official or employee charging any violation of this chapter, or may undertake an investigation on his/her own initiative when he/she acquires information indicating a possible violation and make recommendations for action to end or seek retribution for any activity that, in the attorney's judgment, constitutes a violation of this code of ethics.

1.3.10.3. The City Attorney may request that the governing body hire another attorney, individual, or entity to act as ethics officer when he/she has or will have a conflict of interests in a particular matter.

1.3.10.4. When a complaint of a violation of any provision of this chapter is lodged against a member of the municipality's governing body, the governing body shall either determine that the complaint has merit, determine that the complaint does not have merit, or determine that the complaint has sufficient merit to warrant further investigation. If the governing body determines that a complaint warrants further investigation, it shall authorize an investigation by the City Attorney or another individual or entity chosen by the governing body.

1.3.10.5. The interpretation that a reasonable person in the circumstances would apply shall be used in interpreting and enforcing this code of ethics.

1.3.10.6. When a violation of this code of ethics also constitutes a violation of personnel policy, rule, or regulation or a civil service policy, rule, or regulation, the violation shall be dealt with as a violation of the personnel or civil service provisions rather than as a violation of this code of ethics.

## 1.3.11. Violations

1.3.11.1. An elected official or appointed member of a separate municipal board, commission, committee, authority, corporation, or other instrumentality who violates any provision of this chapter is subject to punishment as provided by the municipality's charter or other applicable law and in addition is subject to censure by the governing body. An appointed official or an employee who violates any provision of this chapter is subject to disciplinary action.

## 1.4. Internal Controls and Risk Management

### 1.4.1. Applicability

- 1.4.1.1. The internal controls and risk management policies contained in this chapter are designed to undergird all of the City's financial policies, and apply to all City elected or appointed officials, full- or part-time employees, departments, and funds.

### 1.4.2. Policy

- 1.4.2.1. The City shall maintain a system of internal control to safeguard its assets against loss, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

- 1.4.2.2. The Finance and Human Resources Director shall maintain the City's Internal Control Manual and provide annual updates for approval by resolution of the Board of Commissioners. The Internal Control Manual shall:

- 1.4.2.2.1. Address the objectives of internal controls, including:

- 1.4.2.2.1.1. reporting – reliability;

- 1.4.2.2.1.2. operations – effective and efficient; and

- 1.4.2.2.1.3. compliance – compliant with applicable laws, regulations, contracts, and grant agreements.

- 1.4.2.2.2. Address the components of internal controls, including:

- 1.4.2.2.2.1. the control environment;

- 1.4.2.2.2.2. risk assessment;

- 1.4.2.2.2.3. control activities;

- 1.4.2.2.2.4. information and communications; and

- 1.4.2.2.2.5. monitoring.

### 1.4.2.3. Written procedures

- 1.4.2.3.1. Written procedures will be maintained by the Finance and Human Resources Director for all functions involving the handling of cash and securities. These procedures shall be in compliance with the Internal Control Manual.

### 1.4.3. Finance department responsibilities

- 1.4.3.1. The Finance Department shall issue internal control procedures, updated annually, and based upon best practices in internal controls and/or based upon deficiencies that have been identified by City staff or the independent auditors. Finance shall ensure that a good faith effort is made to implement all independent auditor recommendations pertaining to internal control. The Finance Department will administer an “in-house audit” program to regularly and systematically review and monitor internal control procedures and compliance with City charter and state and federal regulations regarding internal controls or financial reporting.

### 1.4.4. City Manager responsibilities

- 1.4.4.1. The City Manager is responsible to ensure that internal control procedures developed by the Finance Department and approved by the Board of Commissioners are followed throughout each department of the City.

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## 2. Financial Planning

### 2.1. Annual Budget

#### 2.1.1. Applicability

2.1.1.1. This chapter is the City's Annual Budget policy. The City's budget policy is driven by the City's charter, from which most of the policy elements were derived.

#### 2.1.1.2. Budget commissioner and fiscal year

2.1.1.2.1. The City Manager shall be budget commissioner.

2.1.1.2.2. The fiscal year of the city shall begin on July 1, unless otherwise provided by ordinance.

#### 2.1.2. Budget process

2.1.2.1. The City Manager shall, on or before May 15 of each year, submit to the Board of Commissioners an estimate of the expenditures and revenue of the City for the ensuing fiscal year. This estimate shall be compiled from detailed information obtained from the several departments.

2.1.2.1.1. The City Manager shall provide an annual budget calendar, to be approved by resolution of the Board of Commissioners, that outlines the necessary steps to prepare the annual budget in accordance with 2.1.2.1. above.

2.1.2.1.2. In addition to revenues and expenditures, the City Manager shall cause to be provided an estimate of other financing sources, other financing uses, and any planned use of fund balance to arrive at a balanced budget for the ensuing fiscal year.

#### 2.1.3. Appropriation ordinance and amendments

2.1.3.1. Upon receipt of the estimate provided for in 2.1.2.1. above, the Board of Commissioners shall prepare a tentative appropriation ordinance.

2.1.3.2. The appropriation ordinance for each fiscal year shall be finally adopted before the first day of the fiscal year.

2.1.3.3. Amendments may be made to the original appropriations ordinance at any time during a current fiscal year; provided, however, that, except for emergency expenditures, increased appropriations may be made only after the City Manager has certified in writing that sufficient unappropriated revenue will be available.

2.1.3.3.1. The City Manager may make line-item-detail appropriation transfers within each fund, which shall be reported to the Board of Commissioners at their subsequent regularly scheduled meeting.

#### 2.1.4. Reversion of appropriations to general fund

2.1.4.1. At the end of each year, all unencumbered balances or appropriations in the treasury shall revert to the general fund and be subject to further appropriations.

#### 2.1.5. Annual operating budget – publication – budgetary comparison

2.1.5.1. The governing body shall publish the annual operating budget and budgetary comparisons of the proposed budget with the prior year's actual figures and the current year's estimated figures, which information shall include the following:

2.1.5.1.1. Revenues and expenditures for the following governmental funds: general, streets/public works, general purpose school, and debt service;

2.1.5.1.2. Revenues for each fund shall be listed separately by local taxes, State of Tennessee, federal government, and other sources;

2.1.5.1.3. Expenditures for each fund shall be listed separately by salaries and other costs;

2.1.5.1.4. Beginning and ending fund balances shall be shown for each fund; and

2.1.5.1.5. The number of full-time equivalent employee positions shall be shown for each fund.

2.1.5.2. The publication shall be in a newspaper of general circulation and shall be published not less than ten (10) days prior to the meeting where the governing body will consider final passage of the budget.

## **2.2. Long-Term Financial Planning**

### 2.2.1. Applicability

2.2.1.1. This chapter is applicable to all funds with a minimum fund balance requirement set by official action of the Board of Commissioners (see chapter 2.7. Fund Balances).

### 2.2.2. Purpose

2.2.2.1. The purpose of this policy is to ensure the City's ongoing financial sustainability beyond a single fiscal year budget cycle (see City Charter and chapter 2.1. Annual Budget). Financial sustainability is defined as the City's long-term financial performance and positioning where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to City services.

### 2.2.3. Definitions and acronyms

2.2.3.1. Business Plan – an operational plan that describes how a given department will accomplish its mission.

2.2.3.2. Capital Improvement Plan (“CIP”) – a plan that describes the capital projects and associated funding sources the City intends to undertake in the ensuing fiscal year, plus four additional fiscal years, including the acquisition or construction of capital facilities and assets, and the maintenance thereof.

2.2.3.3. Long-Term Financial Plan (“LTFP”) – an investment plan or strategy with a term of usually longer than one year.

2.2.3.4. Program – a set of activities, operations, or organizational units designed and directed to accomplish a specific service objective for a defined set of constituents.

### 2.2.4. Policy

2.2.4.1. The LTFP process evaluates known internal and external issues impacting the City's financial condition. Such issues are identified, presented, and mitigated when and where possible. The process begins by identifying critical areas which have, or are expected to have, an impact on the financial condition of the City over the next five years. Once the issues are identified, specific goals and objectives are developed for each matter. The LTFP is a constantly changing and moving document which will be routinely updated and presented on an ongoing five-year rolling basis. The LTFP will be incorporated into the City's annual operating budget (see chapter 2.1. Annual Budget) and presented to the Board of Commissioners through the formulation of the Annual Budget. The LTFP is intended to help the City achieve the following:

2.2.4.1.1. ensure the City can attain and maintain financial sustainability;

2.2.4.1.2. ensure the City has sufficient long-term information to guide financial decisions;

2.2.4.1.3. ensure the City has sufficient resources to provide Programs and services to stakeholders;

2.2.4.1.4. ensure potential risks to ongoing operations are identified in the LTFP process and communicated on a regular basis;

2.2.4.1.5. establish mechanisms to identify early warning indicators, and

2.2.4.1.6. identify changes in expenditure or revenue structures needed to deliver services or to meet the goals adopted by the Board of Commissioners.

### 2.2.4.2. Scope of the Plan

2.2.4.2.1. Timeline – the LTFP will forecast revenues, other financing sources, expenditures, other financing uses, use of fund balance, and ending fund balances at least five years into the future or longer where specific issues call for a longer timeline.

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2.2.4.2.2. Analysis – the LTFP will provide meaningful analysis of key trends and conditions, including but not limited to:

2.2.4.2.2.1. Analysis of the affordability of current services, projects, and obligations:

2.2.4.2.2.1.1. An analysis of the City's environment in order to anticipate changes that could impact the City's service and/or financial objectives.

2.2.4.2.2.1.2. Revenue, other financing source, expenditure, and other financing use projections, including the financial sustainability of current service levels over a multi-year period.

2.2.4.2.2.1.3. The affordability of current debt relative to affordability ratios prescribed by City or State of Tennessee law.

2.2.4.2.2.1.4. The affordability of maintaining and replacing the City's current capital assets.

2.2.4.2.2.1.5. The ability to maintain compliance with the Fund Balance policy (chapter 2.7.) within target ranges over a multi-year period.

2.2.4.2.2.1.6. The impact of non-current liabilities on the City's financial position.

2.2.4.2.2.2. Analysis of the affordability of anticipated service expansions or investments in new assets:

2.2.4.2.2.2.1. The operating costs of any new initiatives, projects, or expansion of services where funding has been identified through alternative sources (CIP, grants, debt issuance, etc.) or adopted or approved by the Board of Commissioners through other actions. Service delivery of administrative services and functions shall be included to the extent needed proportionately with the expansion of other services.

2.2.4.2.2.2.2. The affordability of the City's long-term CIP, including operating and maintenance costs for new assets.

2.2.4.2.2.2.3. The affordability of other master plans that call for significant financial investment by the City.

2.2.4.2.2.3. Synthesis of the above to present the City's financial condition:

2.2.4.2.2.3.1. A clear presentation of the resources needed to accomplish the capital improvements identified in the City's CIP and to maintain the existing capital assets.

2.2.4.2.2.3.2. A clear presentation of the resources needed to maintain existing services at their present level in addition to the expansion of services as may have been identified through the analysis described above.

2.2.4.2.2.3.3. Identification of imbalances between the City's current direction and the conditions needed for continued financial health.

2.2.4.2.3. Solution-Driven – the LTFP will identify issues that may challenge the City's continued financial health, and the plan will identify possible solutions. Planning decisions shall be made primarily from a long-term perspective and structural balance is the goal of the planning process. For the purpose of this policy, structural balance means that ending fund balance must meet the minimum levels prescribed in chapter 2.7. Fund Balances.

2.2.4.3. Continuous improvement

2.2.4.3.1. City staff will regularly look for and implement opportunities to improve the quality of the forecasting, analysis, and strategy development that comprises the LTFP. These improvements will primarily be identified through the comparisons of projected performance with actual results.

## 2.2.4.4. Structural balance

2.2.4.4.1. Long-term structural balance is the goal of long-term financial planning. Should the long-term forecasting and analysis show that the City is not structurally balanced over the five-year projection period, the City Manager will make recommendations for the Board of Commissioners' approval on how the plan can be brought into balance.

## 2.2.4.5. Non-current liabilities

2.2.4.5.1. The LTFP will address strategies for ensuring that the City's long-term liabilities remain affordable.

## 2.2.5. Quality control and assurance

2.2.5.1. It is the responsibility of the City Manager and Finance and Human Resources Director to develop procedures providing sufficient guidance to affected City personnel to fulfill the intent of this policy.

## **2.3. Cash Management and Investments**

### 2.3.1. Applicability

2.3.1.1. This chapter outlines the City's cash management and investment policy in compliance with the requirements of Tennessee Code Annotated ("T.C.A.") § 6-56-106. The City has a responsibility to be a good steward of public resources, and this policy will ensure a reasonably safe and productive investment environment for City resources. The responsibility of oversight of the policy resides with the Board of Commissioners, while the daily operation of the policy, including authority for investing or reinvesting assets, is the responsibility of the City Manager and the Finance and Human Resources Director.

2.3.1.2. This policy shall be operated in conformity with all applicable governing legislation and other legal requirements. In instances where T.C.A. and/or federal requirements are more restrictive than City policy requirements, the more restrictive requirements will be followed.

2.3.1.3. Investment policies of the Lakeland School System ("LSS") and associated funds shall be set by the Lakeland Board of Education, in compliance with other applicable federal and/or State of Tennessee requirements as set forth above.

### 2.3.2. Scope

2.3.2.1. This policy applies to the investment of all City cash and cash equivalents, including certificates of deposit and other investments allowed for under this policy. This policy does not apply to investment of employee retirement funds nor to investment of LSS funds.

2.3.2.2. This policy applies to investments within both governmental and proprietary funds of the City, and to governmental and business-type activities.

#### 2.3.2.2.1. Pooling of funds

2.3.2.2.1.1. Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies regarding investment pricing, safekeeping, and administration.

2.3.2.2.1.2. Investment income will be allocated to the various funds based on their respective participation and in accordance with accounting principles generally accepted in the United States ("GAAP").

2.3.2.2.1.3. Exclusions: Un-spent proceeds from general obligation municipal bonds or other externally restricted sources of cash and cash equivalents shall not be pooled but maintained in separate depository accounts (see Authorized Financial Institutions and Depositories).

### 2.3.3. General objectives

2.3.3.1. The primary objectives of investment activities shall be safety, liquidity, and return.

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## 2.3.3.2. Safety –

2.3.3.2.1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest-rate risk.

### 2.3.3.2.1.1. Credit risk

2.3.3.2.1.1.1. The City will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

2.3.3.2.1.1.1.1. limiting investments to the types of securities listed in Suitable and Authorized Investments in this Policy;

2.3.3.2.1.1.1.2. pre-qualifying and conducting ongoing due diligence of the financial institutions and advisers (as applicable) with which the City will do business in accordance with Authorized Financial Institutions and Depositories; and

2.3.3.2.1.1.1.3. diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer and/or financial institutions will be minimized.

### 2.3.3.2.1.2. Interest-rate risk

2.3.3.2.1.2.1. The City will minimize interest-rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

2.3.3.2.1.2.1.1. structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and

2.3.3.2.1.2.1.2. investing operating funds primarily in shorter-term securities or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with the Investment Diversification and Constraints section of this policy.

## 2.3.3.3. Liquidity

2.3.3.3.1. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. As all possible cash demands cannot be anticipated, the portfolio shall also consist largely of funds maintained in active checking accounts or local government investment pools offering same-day liquidity for short-term funds.

## 2.3.3.4. Return

2.3.3.4.1. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

2.3.3.4.2. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

2.3.3.4.2.1. A security with declining credit may be sold early to minimize loss of principal (if applicable).

2.3.3.4.2.2. Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken.

2.3.3.4.2.3. Unanticipated liquidity needs of the portfolio require that the security be sold.

## 2.3.4. Standards of care

- 2.3.4.1. Prudence - the standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this 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 fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.
- 2.3.4.2. Ethics and conflicts of interest - officers and employees involved in the investment process shall refrain from personal business activity 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 any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/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.
- 2.3.4.3. Delegation of authority - authority to manage the investment program in accordance with this policy is granted to the City Manager and Finance and Human Resources Director, hereinafter referred to as "investment officers." Responsibility for the operation of the investment program is hereby delegated to the investment officers, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this policy. At a minimum, procedures shall include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officers. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## 2.3.5. Authorized financial institutions and depositories

- 2.3.5.1. Authorized financial institutions and depositories, whether utilized for investment or business checking services, are those that are 1) Tennessee Bank Collateral Pool participants (thereby ensuring funds are adequately collateralized in accordance with T.C.A. requirements) or 2) the State of Tennessee Local Government Investment Pool ("LGIP").
- 2.3.5.2. Currently authorized financial institutions utilized by the City are as listed in Ordinance 08-124:
  - 2.3.5.2.1. Trustmark National Bank;
  - 2.3.5.2.2. Regions Bank;
  - 2.3.5.2.3. First Citizens National Bank;
  - 2.3.5.2.4. SunTrust Bank;
  - 2.3.5.2.5. Bank of Bartlett; and
  - 2.3.5.2.6. First Tennessee Bank.
- 2.3.5.3. The investment officers shall annually verify that City depositories remain participants in the Bank Collateral Pool via the Tennessee Department of Treasury website.

## 2.3.6. Safekeeping and custody

- 2.3.6.1. Delivery vs. payment - if authorized by further ordinance, all trades of marketable securities will be executed by delivery vs. payment ("DVP") to ensure that securities are deposited in an eligible custody account prior to the release of funds.
- 2.3.6.2. Safekeeping - if authorized by further ordinance, securities will be held by an independent third-party custodian selected by the City as with all securities held in the City's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).
- 2.3.6.3. Internal controls - the investment officers shall establish a system of internal controls, which shall be documented in writing (see chapter 1.4. Internal Controls and Risk Management). The internal controls shall be reviewed annually by the Board of Commissioners and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

## 2.3.7. Suitable and authorized investments

- 2.3.7.1. While T.C.A. § 6-56-106 allows for the investment of City funds in several types of investments, for the purposes of this policy investment of City funds is only authorized in demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. Funds held shall be segregated and identified by external restrictions, where applicable.
- 2.3.7.2. Full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. Such collateralization is accomplished via the selection of institutions included in 2.3.5.2. above.
- 2.3.7.3. Repurchase agreements are not authorized.

## 2.3.8. Investment diversification and constraints

- 2.3.8.1. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalents in all City funds shall be diversified by investment with the financial institutions listed in 2.3.5.2. above.

## 2.3.9. Reporting

- 2.3.9.1. Investment earnings and performance shall be reported monthly to the Board of Commissioners as a component of the Treasurer's Report.

## 2.4. Capital Projects

### 2.4.1. Applicability

- 2.4.1.1. This chapter contains a number of important policy considerations that are the basis for the Capital Improvements Plan ("CIP"). These policies provide guidelines for all financial aspects of the CIP and ultimately affect the project selection process.

### 2.4.2. Relationship of LTFP to the CIP

- 2.4.2.1. Virtually all of the projects included in the CIP are based upon formal long-range plans that have been adopted by the Board of Commissioners. This ensures that the CIP, which is the embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the Board of Commissioners as contained in the LTFP and supporting documents.

## 2.4.3. Establishing CIP priorities

2.4.3.1. The City uses the following basic CIP project prioritization and selection process:

- 2.4.3.1.1. Each CIP program area establishes criteria to be used in the prioritization of specific projects submitted for funding. These specific criteria are developed in conjunction with Board of Commissioners priorities and input from citizens and associated City boards and commissions (if applicable).
- 2.4.3.1.2. The Finance Department determines revenue projections available to the non-utility CIP in consultation with various revenue-generating departments and the amount of resources available for new projects.
- 2.4.3.1.3. The City Manager evaluates the various CIP projects and, in consultation with the City Engineer, selects those with highest priority.
- 2.4.3.1.4. Within the available funding, the highest priority projects are then selected and funded in the CIP.
- 2.4.3.1.5. The City Engineer recommends an expenditure plan to the City Manager and Finance and Human Resources Director, which includes all capital costs and any applicable maintenance and operations ("M&O") and/or required short-term financing costs. The City Engineer is responsible for the cost estimates, including future M&O costs related to the implementation of completed projects.
- 2.4.3.1.6. A preliminary CIP is recommended to the Board of Commissions by the City Manager and Finance and Human Resources Director along with the Annual Budget.
- 2.4.3.1.7. The Board of Commissioners review the LTFP, the CIP, and the Annual Budget prior to adopting the Annual Budget and establishing related appropriations as a part of the City's annual operating budget process.

## 2.4.4. Types of projects included in the CIP

- 2.4.4.1. The CIP will display, to the maximum extent possible, all major capital projects in which the City is involved. While the following criteria may be used as a general guide to distinguish which projects should be included or excluded from the CIP, there are always exceptions which require management's judgment.
- 2.4.4.2. For purposes of the City's CIP, a CIP project is generally defined to be any project that possesses all of the following characteristics:
  - 2.4.4.2.1. exceeds an estimated cost of \$100,000;
  - 2.4.4.2.2. involves totally new physical construction, reconstruction designed to gradually and systematically replace an existing system, replacement of a major component of an existing facility or computer system, or acquisition of land or structures; and
  - 2.4.4.2.3. involves City funding in whole or in part or involves no City funds but is the City's responsibility for implementing (such as a 100%-grant-funded project).

## 2.4.5. Scoping and costing based on predesign study

- 2.4.5.1. Some projects are initially proposed and funded only for preliminary engineering and planning work. This funding will not provide any monies to develop final plans, specifications, and estimates to purchase rights-of-way or to construct the projects. However, generally an estimated amount sufficient to cover these costs based on a rough preliminary estimate is earmarked within the program area.

## 2.4.6. Required project features and financial responsibility

- 2.4.6.1. If a proposed CIP project will cause a direct impact on other publicly owned facilities, an equitable shared and funded cost plan must be coordinated between the affected program areas.

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## 2.4.7. Predictability of project timing, cost, and scope

2.4.7.1. The predictability of timing and costs of projects is important to specific private developments, such as the provision of street improvements or the extension of major sewer lines or water supply, without which development could not occur. These projects generally involve significant financial contributions from such private development through impact fees, developer extension agreements, developer contributions, and other means. Once a project has been approved by the Board of Commissioners in the CIP, project scheduling is a priority to maintain.

## 2.4.8. CIP non-utility maintenance and operating (“M&O”) costs

2.4.8.1. Non-utility CIP project M&O costs identified in the project description, as approved by the Board of Commissioners, shall have a funding plan. Preferably, operating budget tax sources will not be provided for this purpose. More suitable sources of funding include project-generated revenues, user fees, or other new taxes.

## 2.4.9. Preference for existing capital infrastructure

2.4.9.1. It is the City's policy to ensure that adequate resources are allocated to preserve the City's existing infrastructure before targeting resources to build new facilities that also have operating and maintenance obligations. This policy addresses the need to protect the City's historical investment in capital facilities and to avoid embarking on a facility enhancement program, which when coupled with the existing facilities requirements, the City cannot afford to adequately maintain.

## 2.4.10. New facilities should be of high quality, low maintenance, least cost

2.4.10.1. This policy has guided the development and execution of the CIP through an emphasis on lowest life-cycle cost. Projects should only be built if the necessary funding to operate them is provided. Also, priority is given to new facilities that have minimal ongoing maintenance costs so as to limit the impact upon both the CIP and the operating budget.

## 2.4.11. Public input for capital projects

2.4.11.1. The City makes a serious commitment to public involvement. All of the City's long-range plans have been developed through an extensive citizen involvement program. Citizen involvement occurs at the long-range plan development stage, during CIP review and adoption, during master planning processes, during design and construction of specific projects, and through public processes associated with City boards and commissions. Public hearings are held during the CIP development and approval process to allow the public to comment on the recommended projects. The projects themselves call for an extensive public outreach effort, allowing those most closely affected to influence the design of the projects. While public input is essential to the successful implementation of the CIP, staff and the Board of Commissioners must also remain conscious of the overall effect upon costs when responding to requests of project neighbors.

## 2.4.12. Basis for project appropriations

2.4.12.1. During the Board of Commissioners' annual CIP review and Annual Budget process, the Board of Commissioners will appropriate the estimated project costs for projects in the CIP to be implemented in the ensuing fiscal year. Subsequent amendments to appropriation levels for changes to the CIP may be approved by the Board of Commissioners – see section 2.1.3. above.

## 2.4.13. Balanced CIP

2.4.13.1. The CIP is a balanced five-year plan. This means that for the entire five-year period, revenues will be equal to project expenditures in the Plan. It is anticipated that the plan will have more expenditures than revenues in single years of the Plan, but this imbalance will be corrected through the use of interim financing as needed. Any additional financing needed for CIP implementation will be approved by the Board of Commissioners.

## 2.4.14. Use of debt in the CIP

2.4.14.1. The CIP is viewed as a long-term program that will continually address capital requirements far into the future. The use of debt to fund the CIP shall be limited, and in accordance with chapter 2.5. Debt Management.

## 2.4.15. CIP plan update and amendment

2.4.15.1. The CIP will be updated at least annually as a part of the City's annual budget process. The Board of Commissioners may amend the CIP at any time if a decision must be made and action must be taken before the next CIP review period. The Board of Commissioners has delegated authority to the City Manager to administratively approve CIP adjustments if their impact is within the current fiscal year, and within the same fund (see policy on budget transfers). All project additions or deletions must be approved by the Board of Commissioners.

## 2.4.16. Formalization of monetary agreements

2.4.16.1. All agreements between the City and outside jurisdictions shall be in writing specifying the financial terms of the agreement, the length of the agreement, and the timing of any required payments. These agreements shall be reviewed by the City Attorney. Formalization of these agreements will protect the City's interests. Program areas shall make every effort to promptly request any reimbursements that are due the City. Where revenues from outside jurisdictions are ongoing, these requests shall be made at least quarterly, unless alternative arrangements are approved by the City Manager or Board of Commissioners.

## 2.4.17. Projected grant revenues

2.4.17.1. Grant-funded capital expenditures are budgeted prior to the specific grant award. City overhead or indirect costs for grant-funded programs will be included in all grant proposals, where permitted. With grant-funded capital acquisitions, the City will attempt to recover ongoing M&O costs, and replacement costs associated with the acquisition.

## 2.4.18. Applicable project charges

2.4.18.1. CIP projects should reflect all costs that can be clearly shown to be necessary and applicable. Staff charges to CIP projects will be limited to time spent actually working on those projects and shall include an overhead factor to cover the applicable portion of that person's operating cost.

## **2.5. Debt Management**

### 2.5.1. Applicability and purpose

2.5.1.1. The purpose of this chapter is to establish a set of parameters by which debt obligations will be undertaken by the City. This policy reinforces the commitment of the City and its officials to manage the financial affairs of the City so as to minimize risks, avoid conflicts of interest, and ensure transparency while still meeting the City's capital needs. A debt management policy signals to the public and the rating agencies that the City is using a disciplined and defined approach to financing capital needs and fulfills the requirements of the State of Tennessee regarding the adoption of a debt management policy. This policy applies to all debt-related activities of the City without respect to the City fund in which the proceeds will be deposited, or from which debt service will be paid.

### 2.5.2. Goals and objectives

2.5.2.1. The goal of this policy is to assist decision makers in planning, issuing, and managing debt obligations by providing clear direction as to the steps, substance, and outcomes desired. In addition, greater long-term stability will be generated by the use of consistent guidelines in issuing debt. The City's objectives are to enhance internal financial management by:

2.5.2.1.1. achieving the lowest cost of capital;

2.5.2.1.2. ensuring high credit quality;

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- 2.5.2.1.3. assuring access to capital markets;
- 2.5.2.1.4. preserving financial flexibility; and
- 2.5.2.1.5. managing various forms of risk exposure.

## 2.5.3. Debt and debt types

- 2.5.3.1. Definition of debt – all obligations of the City to repay, with or without interest, in installments and/or at a later date, some amount of money utilized for the purchase, construction, or operation of City resources. This includes but is not limited to notes, bond issuances, capital leases, and loans of any type (whether from an outside source such as a bank or from another internal fund). When the City determines that the use of debt is appropriate, the types of debt listed herein shall be utilized.
- 2.5.3.2. The Finance and Human Resources Director shall monitor and report the City's total outstanding debt obligation to the Board of Commissioners (maturities and terms and conditions of all obligations, to ensure compliance). The Finance and Human Resources Director shall also report to the Board of Commissioners any matter that adversely affects the credit or financial integrity of the City.
- 2.5.3.3. The City will seek to structure debt with level or declining debt service payments over the life of each individual bond issue or loan.
- 2.5.3.4. As a rule, the City will not backload, use “wrap-around” techniques, balloon payments, or other exotic formats to pursue the financing of projects. When refunding opportunities, natural disasters, other non-general fund revenues, or other external factors occur, the City may utilize non-level debt methods. However, the use of such methods must be thoroughly discussed in a public meeting and the mayor and governing Board of Commissioners must determine such use is justified and in the best interest of the City.
- 2.5.3.5. Long-term debt
  - 2.5.3.5.1. The City may issue long-term debt at their discretion if the City presumes that capital improvements should not be financed from current revenues or short-term borrowing. Long-term debt shall not be used to finance current operations. Long-term debt may be used for capital purchases or construction identified through the CIP, regional development, transportation, or other master process or plan.
  - 2.5.3.5.2. In accordance with accounting principles generally accepted in the United States (“GAAP”) and state law, the maturity of the underlying debt will not be more than the useful life of the assets purchased or built with the debt, not to exceed 30 years; however, an exception may be made with respect to federally-sponsored loans, provided such an exception is consistent with law and accepted practices.
  - 2.5.3.5.3. All costs associated with the initial issuance or incurrent of debt, management, and repayment of debt (including interest, principal, and fees or charges) shall be disclosed prior to action by the Board of Commissioners in accordance with the notice requirements stated above.
  - 2.5.3.5.4. Costs related to the repayment of debt, including liabilities for future years, shall be provided in context of the annual budgets from which such payments will be funded (i.e. General Obligations bonds in context of the General Fund, revenue bonds in context of the dedicated revenue stream and related expenditures, loans, and notes).
  - 2.5.3.5.5. General obligation debt
    - 2.5.3.5.5.1. The City may issue general obligation debt secured by the full faith and credit of the City. The City may also use the general obligation pledge to support other debt issuances, if the additional support improves the economics and complies with this debt management policy.
  - 2.5.3.5.6. Revenue debt

2.5.3.5.6.1. The City may issue revenue bonds secured by the revenues generated from the capital project being financed.

## 2.5.3.5.7. Bond or note structure

2.5.3.5.7.1. Serial bonds – the City may issue bonds that mature serially.

2.5.3.5.7.2. Term bonds – the City may issue bonds that mature with mandatory sinking funds.

2.5.3.5.7.3. Duration – all debt will be financed for the shortest period of time between the useful life of the asset financed or thirty (30) years.

2.5.3.5.7.4. Capitalized interest – revenue bonds may require the use of capitalized interest to pay debt service until the project begins to generate revenue. Capitalized interest will be calculated from the issuance date to the shortest period of time between three (3) years or the time limit imposed by statute or the internal revenue service (“IRS”) code.

2.5.3.5.7.5. Debt structure – debt issuances shall be structured to achieve level debt service or level principal. The use of bullet or balloon maturities should be avoided except in instances where bullets or balloon maturities make existing overall debt service level or to match a specific revenue stream.

2.5.3.5.7.6. Call provisions – long-term debt issuances will include a minimum call feature that is ten (10) years from the date of delivery of such debt.

2.5.3.5.7.7. Original issuance discount/premium – debt with original issuance discount or premium will be permitted.

## 2.5.3.5.8. Capital leases

2.5.3.5.8.1. The City may issue capital leases to finance projects that amortize in three (3) to seven (7) years.

## 2.5.3.6. Short-term debt

2.5.3.6.1. Short-term borrowing may be issued in order to finance short-term funding for projects and temporary funding of operational cash flow deficits or anticipated revenues.

2.5.3.6.2. Bond anticipation notes (“BANs”): The City may issue BANs during the construction period of a project or to provide short-term financing for a project. The BANs shall not mature more than six (6) years from the date of issuance. BANs shall mature within six (6) months after substantial completion of the financed project.

2.5.3.6.3. Revenue anticipation notes (“RANs”)/tax anticipation notes (“TANs”): The City may issue RANs or TANs to meet cash flow needs as long as the issue fully conforms to federal IRS and state requirements and limitations.

2.5.3.6.4. Intrafund and interfund loans: The City may also issue loans to fund operational deficiencies or to fund capital projects to be paid from the current fiscal year revenues. Loans will not extend beyond twelve (12) months and should only be issued in compliance with state statute.

## 2.5.3.7. Other short-term debt

2.5.3.7.1. Short-term debt may be used for certain projects and equipment financing as well as for operational borrowing; however, the City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and close budget management. Short-term debt may be issued when it provides an interest rate advantage or as interim financing until market conditions improve. The City will only issue short-term debt when there is a defined repayment source or amortization of principal.

## 2.5.4. Issuance process

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- 2.5.4.1. The City is currently rated by Moody's Investor Services ("Moody's"). Moody's has prescribed certain debt metrics to ensure municipalities remain able to service existing debt and afford additional debt, should it be necessary. The City will strive to maximize their rating and minimize their borrowing cost by being mindful of the following metrics when considering the option to issue debt:
    - 2.5.4.1.1. Net Direct Debt / Full Value – 4.00% max allowable
    - 2.5.4.1.2. Net Direct Debt / Operating Revenue – 7.00x max allowable
  - 2.5.4.2. Legal requirements
    - 2.5.4.2.1. BANs, capital outlay notes ("CONs"), grant anticipation notes, RANs, and TANs will be submitted to the State of Tennessee Comptroller's Office, as and if required by T.C.A., and the Board of Commissioners prior to issuance or entering into the obligation. A plan for refunding debt issues will also be submitted to the Comptroller's Office prior to issuance. Capital or equipment leases may be entered into by the Board of Commissioners; however, details on the lease agreement will be forwarded to the Comptroller's Office on the specified form within 45 days. Additionally, the City will adhere to laws and regulations as stipulated by the Controller's Office and submit any additional information that may be required, including but not limited to refunding plans, swap documents, and negotiated sales requests.
    - 2.5.4.2.2. The City shall comply with legal requirements for notice and for public meetings related to debt issuances. All notices shall be posted in the customary and required posting locations, including local newspapers and websites. All costs (including principal, interest, issuance, continuing, or other), terms and life of each debt issue, and a debt service schedule outlining the rate of retirement for the principal amounts shall be clearly presented and disclosed to the citizens, the Board of Commissioners, and other stakeholders in a timely manner. The City will post the Official Statement, or an electronic link to the official statement, of bond or note issuances on the City's website to ensure transparency.
    - 2.5.4.2.3. Method of sale
      - 2.5.4.2.3.1. Competitive sale – long-term debt is awarded to the bidder providing the lowest true interest cost. Competitive sales will be the default method of sale for the City.
      - 2.5.4.2.3.2. Negotiated sale – long-term debt that meets certain criteria may be sold via negotiated sale. Examples of such criteria include:
        - 2.5.4.2.3.2.1. a structure which may require a strong pre-marketing effort (such as a complex transaction or a "story" bond);
        - 2.5.4.2.3.2.2. size of the issue;
        - 2.5.4.2.3.2.3. market volatility;
        - 2.5.4.2.3.2.4. variable rate demand obligations; or
        - 2.5.4.2.3.2.5. proprietary product of a single firm
      - 2.5.4.2.3.3. Private placement – debt purchased directly by a bank with limited marketing efforts will be allowable should it be in the City's best interest.
- 2.5.5. Interest rates
  - 2.5.5.1. Variable-rate debt
    - 2.5.5.1.1. In order to maintain a predictable debt service burden, the City will give preference to fixed-rate debt but may consider variable-rate debt. The percentage of net variable-rate debt outstanding (excluding debt which has been converted to synthetic fixed-rate debt and debt matched to assets) will not exceed thirty (30) percent of the total outstanding debt. The following circumstance may result in the consideration of issuing variable-rate debt:

- 2.5.5.1.1.1. Asset-liability matching
- 2.5.5.1.1.2. Construction funding
- 2.5.5.1.1.3. Current high interest rates
- 2.5.5.1.1.4. Variable revenue stream
- 2.5.5.1.1.5. Adequate safeguards against risk
- 2.5.5.1.2. The City will annually include in its budget an interest-rate assumption for any outstanding variable-rate debt that takes market fluctuations affecting the rate of interest into consideration.
- 2.5.5.1.3. Prior to entering into any variable-rate debt obligation that is backed by insurance and secured by a liquidity provider, the Board of Commissioners shall be informed of the potential effect on rates as well as any additional costs that might be incurred should the insurance fail.
- 2.5.5.1.4. Additionally, prior to entering into any variable-rate debt obligation that is backed by a letter of credit provider, the Board of Commissioners shall be informed of the potential effect on rates as well as any additional costs that might be incurred should the letter of credit fail.
- 2.5.5.1.5. Lastly, prior to entering into any variable-rate debt obligation, the Board of Commissioners will be informed of any terms, conditions, fees, or other costs associated with the prepayment of variable-rate debt obligations.
- 2.5.5.1.6. In cases of variable interest or non-specified costs, detailed explanation of the assumptions shall be provided along with the complete estimate of total costs anticipated to be incurred as part of the debt issue.
- 2.5.5.2. Use of synthetic debt
  - 2.5.5.2.1. The City chooses not to use derivative or other exotic financial structures in the management of the City's debt portfolio.
  - 2.5.5.2.2. Prior to any reversal of this provision, a written management report outlining the potential benefits and consequences of using these structures must be submitted to the Board of Commissioners; and the Board of Commissioners must adopt a specific amendment to this policy concerning the use of derivatives or interest-rate agreements that complies with the State Funding Board Guidelines.
- 2.5.6. Refinancing debt
  - 2.5.6.1. Refinancing criteria
    - 2.5.6.1.1. The City will refund debt when it is in the best financial interest of the City to do so. The Finance and Human Resources Director shall have the responsibility to analyze outstanding debt for refunding opportunities. The decision to refinance must be explicitly approved by the Board of Commissioners, and all plans for current or advance refunding of debt must be in compliance with state laws and regulations. Examples of reasons to refund debt include:
      - 2.5.6.1.1.1. restructuring to meet unanticipated revenue expectations;
      - 2.5.6.1.1.2. achieve cost savings;
      - 2.5.6.1.1.3. mitigate irregular debt service payments;
      - 2.5.6.1.1.4. release reserve funds; and/or
      - 2.5.6.1.1.5. remove unduly restrictive bond covenants.
    - 2.5.6.1.2. The City establishes a minimum present value savings threshold of three (3) percent of the refunded bond principal amount. The present value savings will be net of all costs related to the refinancing.

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## 2.5.6.2. Term of refunding issues

2.5.6.2.1. The City will refund bonds within the term of the originally issued debt. However, the Finance and Human Resources Director may consider maturity extension, when necessary to achieve a desired outcome, provided such extension is legally permissible. The Finance and Human Resources Director may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed asset and the concept of inter-generational equity should guide this decision.

## 2.5.6.3. Escrow structuring

2.5.6.3.1. The City shall utilize the most optimal securities available in structuring refunding escrows. In the case of open market securities, a certificate will be provided by a third-party agent, who is not a broker-dealer, stating that the securities were procured through an arms-length, competitive bid process, that such securities were more cost effective than State and Local Government Obligations ("SLGS"), 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.

## 2.5.6.4. Arbitrage

2.5.6.4.1. The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to federal guidelines. The City shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any refunding.

## 2.5.7. Professional services

2.5.7.1. The City shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the City and the lender or conduit issuer, if any. This includes "soft" costs or compensations in lieu of direct payments.

## 2.5.7.2. Underwriter

2.5.7.2.1. The underwriter will clearly identify itself in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the City with respect to that issue. The underwriter must clarify its primary role as purchaser of securities in an arms-length commercial transaction and that it has financial and other interests that differ from those of the City. The underwriter in a publicly offered, negotiated sale will be required to provide pricing information both as to interest rates and to takedown per maturity to the City (or its designated official) in advance of the pricing of the debt.

### 2.5.7.2.2. Underwriter selection (negotiated transaction)

2.5.7.2.2.1. The City will select the senior manager (and co-managers, if necessary) for a proposed negotiated sale. Examples of the selection criteria include:

- 2.5.7.2.2.1.1. the firm's ability and experience in managing complex transactions;
- 2.5.7.2.2.1.2. prior knowledge and experience with the City;
- 2.5.7.2.2.1.3. the firm's willingness to risk capital and demonstration of such risk;
- 2.5.7.2.2.1.4. quality and experience of personnel assigned to the City's engagement;
- 2.5.7.2.2.1.5. financing plan presented; and
- 2.5.7.2.2.1.6. underwriting fees.

### 2.5.7.2.3. Underwriter's discount

2.5.7.2.3.1. The City will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the City will determine the allocation of fees, if any, with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.

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

#### 2.5.7.2.4. Evaluation of underwriter performance

2.5.7.2.4.1. The City will evaluate each bond sale after completion to assess:

2.5.7.2.4.1.1. costs of issuance including underwriters' compensation;

2.5.7.2.4.1.2. pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis; and

2.5.7.2.4.1.3. distribution of bonds and sales credits

#### 2.5.7.3. Financial advisor

2.5.7.3.1. The City may select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes. The City will enter into a written agreement with each person or firm serving as financial advisor in debt management and transactions. The financial advisor shall not be permitted to bid on, privately place, or underwrite an issue for which the firm is providing advisory services. Selection of the financial advisor(s) will be based on, but not limited to, the following criteria:

2.5.7.3.1.1. overall quality of the firm's proposal as an indicator of its probability for success;

2.5.7.3.1.2. relevant financial advisor experience with municipal government issuers and the public sector;

2.5.7.3.1.3. indication that the firm has a broadly-based background and is therefore capable of balancing the overall need for continuity and innovation in capital planning and debt financing;

2.5.7.3.1.4. experience and demonstrated success as indicated by its listing of current major clients;

2.5.7.3.1.5. the firm's professional reputation for integrity and compliance with state and federal law; and

2.5.7.3.1.6. independence from municipal bond underwriting, trading, or other clients, activities, or events which could result in a conflict of interest.

2.5.7.3.2. Whether in a competitive sale or negotiated sale, the financial advisor shall not be permitted to bid on, privately place, or underwrite an issue for which they are or have been providing advisory services for the issuance or broker any other debt transactions for the City.

#### 2.5.7.4. Bond or disclosure counsel

2.5.7.4.1. The City shall enter into an engagement letter agreement with each lawyer or law firm representing the City in a debt transaction. (No engagement letter is required for any lawyer who is an employee of the City or lawyer or law firm which is under a general appointment or contract to serve as counsel to the City. The City does not need an engagement letter with counsel not representing the City, such as underwriters' counsel.)

#### 2.5.8. Monitoring and compliance

##### 2.5.8.1. Continuing disclosure

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2.5.8.1.1. The City will provide annual financial and economic information to the Electronic Municipal Market Access system (“EMMA”) website, which is the official source for municipal disclosures and market data designated by the Securities and Exchange Commission (“SEC”) and the State Information Depository (“SID”).

2.5.8.1.2. The City will also notify EMMA and SID of any of the following material events:

2.5.8.1.2.1. principal and interest payment delinquencies;

2.5.8.1.2.2. nonpayment-related defaults;

2.5.8.1.2.3. unscheduled draws on bond-related reserves;

2.5.8.1.2.4. unscheduled draws on credit enhancements;

2.5.8.1.2.5. substitution of credit or liquidity providers or the failure of performance on the part of a liquidity provider;

2.5.8.1.2.6. adverse tax opinions or events affecting the tax-exempt status of any bonds;

2.5.8.1.2.7. modifications to rights on bond holders;

2.5.8.1.2.8. bond calls;

2.5.8.1.2.9. defeasances;

2.5.8.1.2.10. matters affecting collateral;

2.5.8.1.2.11. rating changes; or

2.5.8.1.2.12. any additional enumerated events specified in Official Statements.

2.5.8.1.3. The City will also maintain a system of record keeping and reporting which complies with the arbitrage rebate compliance requirements of the federal tax code.

2.5.8.2. Conflicts of interest

2.5.8.2.1. Professionals involved in a debt transaction hired or compensated by the City shall be required to disclose to the City existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, liquidity or credit enhancement provider, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations, and program administrators. This disclosure shall include that information reasonably sufficient to allow the City to appreciate the significance of the relationships.

2.5.8.2.2. Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

2.5.8.3. Compliance

2.5.8.3.1. The Finance and Human Resources Director is responsible for ensuring compliance with this policy.

## **2.6. Working Capital (Enterprise Funds)**

2.6.1. Applicability

2.6.1.1. This chapter applies to the City’s proprietary enterprise fund, the Sewer Fund currently designated as fund number 412. Working capital is an important measure of liquidity in enterprise funds, which include both current and long-term assets and liabilities, as well as deferred outflows of resources and deferred inflows of resources. This policy sets that targets for minimum working capital to be maintained in the City’s enterprise fund, both during the annual financial planning process as well as throughout the fiscal year.

## 2.6.2. Working capital defined

- 2.6.2.1. Working capital is defined as the enterprise fund's current assets less its current liabilities. Working capital for enterprise funds may provide a measure more comparable to governmental funds' fund balance than does the enterprise fund's net position, which is typically heavily weighted with a net investment in capital assets.
- 2.6.2.2. Any current assets that are restricted as to use or liquidity shall be excluded from the working capital calculation.

## 2.6.3. Policy

- 2.6.3.1. It is the City of Lakeland's policy to maintain working capital in the Sewer Fund equivalent to at least ninety (90) days' worth of annual operating expenses and debt service requirements. While this represents the minimum working capital for the Sewer Fund, it is management's and the Board of Commissioners' desire to maintain a higher level of working capital in most instances.
- 2.6.3.2. Working capital for the Sewer Fund shall be reported to the Board of Commissioners on a monthly basis by the Finance and Human Resources Director as a component of the Treasurer's Report.
- 2.6.3.3. Should the working capital in the Sewer Fund fall below the minimum working capital requirement, the City Manager and Finance and Human Resources Director shall present a plan to the Board of Commissioners, for their approval, to raise working capital above the minimum level.

## 2.6.4. Compliance and reporting

- 2.6.4.1. The City Manager is responsible for ensuring that the minimum working capital level is maintained in the Sewer Fund. The Finance and Human Resources Director is responsible for calculating, monitoring, and reporting working capital to the City Manager and the Board of Commissioners.

## 2.7. Fund Balances

### 2.7.1. Overview and applicability

- 2.7.1.1. The City is committed to creating, maintaining, and improving a vibrant environment for the residents of the City. To ensure economic viability, the City has established a fund balance policy dedicated to maintaining a reasonable fund balance. An appropriate fund balance should be sufficient to mitigate current and future financial risks. Benefits of a healthy fund balance include reducing the need for urgent and significant tax increases, ensuring timely response to emergency situations or unanticipated events, decreasing the need for short-term financing solutions, exhibiting sound fiscal management by permitting the development of a responsible and responsive long-term financial plan, and, maintaining (or improving) the bond rating, minimizing the cost of financing long-term projects. This policy shall apply to the funds mentioned herein.

### 2.7.2. Definitions

- 2.7.2.1. A fund is described as a set of accounts, segregated for specific purposes in accordance with laws or regulations. A Fund Balance is the difference between the assets and the liabilities of a particular fund. Fund balance descriptions can be classified into several different categories:
  - 2.7.2.1.1. Nonspendable – balance is not able to be spent. This category is created by a legal opinion, or by the nature of underlying assets (such as prepaid expenditures and/or deposits).
  - 2.7.2.1.2. Restricted – balance can only be spent for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
  - 2.7.2.1.3. Committed – balance can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.
  - 2.7.2.1.4. Assigned – balance of the fund is intended to be used for specific purposes but are not considered restricted or committed.

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2.7.2.1.5. Unassigned – all other balances not previously categorized are included in this balance.

## 2.7.3. Establishing a Policy

- 2.7.3.1. When establishing a policy, the City considered a number of factors including predictability of revenues and volatility of expenditures; exposure to significant one-time outlays (disasters, immediate capital needs, state budget cuts); potential availability of fund resources from other funds; potential impact on credit ratings; and commitments and assignments.
- 2.7.3.2. The City has determined that the unassigned General Fund Balance will remain at a level equal to 20-30 percent of General Fund Revenues, with a target of 25 percent, plus \$1,100,000 associated with cash flow purposes and exposure to variable rate debt.
- 2.7.3.3. During the budget process, an annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine if modifications to the fund balance policy are necessary and appropriate. Any proposed amendments to this policy will be presented and voted on by the Commission as referenced herein.

## 2.7.4. Using Fund Balance

- 2.7.4.1. The City has decided to limit the use of fund balance to unanticipated expenditures (such as natural disasters or calamities, emergencies, or unexpected liabilities created by new state or federal legislation); specific and reasonable cash flow purposes; grant anticipation reimbursement; new public health and safety needs; service enhancements; early retirement of debt; and one-time capital expenditures that align with essential services. Fund balance should not be used as a long-term approach to balancing the budget or ongoing expenditures.

## 2.7.5. Replenishing the Fund Balance

- 2.7.5.1. If the Fund Balance is depleted below the level established by this policy, the City Manager, with consultation from the Finance Director, will develop a plan to replenish the Fund Balance. The plan will be approved by the Commission and should include recommendations for rate, fee or revenue adjustments and expenditure reductions, as necessary. The plan should also be reviewed and modified on an annual basis until the Fund Balance policy level is achieved. Any increase in discretionary expenditures should be limited until the Fund Balance is restored to the policy level.

## 3. Revenues

### 3.1. General Revenue Management

#### 3.1.1. Applicability

- 3.1.1.1. The revenue policies in this chapter are designed to ensure that revenue planning and management is conducted in accordance with City charter and ordinances, as well as state and federal regulations.

#### 3.1.2. General revenue policies

- 3.1.2.1. Diversified and stable base – the City will seek to maintain a diversified and stable revenue base to reduce the effects of short-term fluctuations in any one revenue source.
- 3.1.2.2. Current revenues for current users – the City will fund current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- 3.1.2.3. Interfund transfers and loans
  - 3.1.2.3.1. In order to achieve important public policy goals, the City has established various special revenue, debt service, and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures, and fund equity (fund balance or net position).

- 3.1.2.3.2. Any transfers between funds for operating purposes are clearly set forth in the annual budget (see chapter 2.1.). These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year. In summary, interfund transfers result in a change in fund equity; interfund borrowings do not, as the intent is to repay the loan in the near term.

## **3.2. User Fee Cost Recovery Goals**

### 3.2.1. Ongoing review

- 3.2.1.1. Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the service delivery costs as well as changes in methods or levels of service delivery. In instances where State or other regulations limit the level of fees charged for City services, the user fee cost recovery principles may not apply. The budget document will identify where fee levels have been limited and clearly identify the subsidy required due to user fee limitations.

### 3.2.2. User fee cost recovery levels

- 3.2.2.1. In setting user fees and cost recovery levels, the following factors will be considered:

- 3.2.2.1.1. Community-wide versus special benefit – the level of user fee cost recovery should consider the community-wide versus special service nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
- 3.2.2.1.2. Service recipient versus service driver – after considering community-wide versus special benefit of the service, the concept of service recipient versus service driver should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts; the community is the primary beneficiary. However, the applicant is the driver of development review costs, and as such, cost recovery from the applicant is appropriate.
- 3.2.2.1.3. Effect of pricing on the demand for services – the level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly stimulated by artificially low prices. Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.
- 3.2.2.1.4. Feasibility of collection and recovery – although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.

### 3.2.3. Factors favoring low cost recovery levels

- 3.2.3.1. Very low cost recovery levels are appropriate under the following circumstances:

- 3.2.3.1.1. There is no intended relationship between the amount paid and the benefit received.
- 3.2.3.1.2. Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
- 3.2.3.1.3. There is no intent to cover the cost of the service. Examples may include park shelter and auditorium rental.
- 3.2.3.1.4. The service is non-recurring, generally delivered on a "peak demand" or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services fall into this category.

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3.2.3.1.5. Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Small-scale licenses and permits might fall into this category.

## 3.2.4. Factors favoring high cost recovery levels

3.2.4.1. The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

3.2.4.1.1. The service is similar to services provided through the private sector and private or other public sector alternatives could or do exist for the delivery of the service.

3.2.4.1.2. For requested service that requires added costs, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received. An example is higher fees for utility hookup after normal working hours.

3.2.4.1.3. The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.

## 3.2.5. General concepts regarding the use of service charges

3.2.5.1. The following general concepts will be used in developing and implementing service charges:

3.2.5.1.1. Revenues should not exceed the reasonable cost of providing the service.

3.2.5.1.2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance, and insurance.

3.2.5.1.3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.

3.2.5.1.4. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.

3.2.5.1.5. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

## 3.2.6. Low cost recovery services

3.2.6.1. Based on the criteria discussed above, the following types of services should have very low cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for the operation as a whole should be general-purpose revenues, not user fees.

3.2.6.1.1. Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks, and general-purpose buildings.

3.2.6.1.2. Providing social service programs and economic development activities.

## 3.2.7. Recreation programs

3.2.7.1. The following cost recovery policies apply to the City's recreation programs:

3.2.7.1.1. Cost recovery for activities directed to adults should be relatively high.

3.2.7.1.2. Cost recovery for activities directed to youth and seniors should be relatively low. Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high levels of participation in youth and senior recreation activities regardless of financial status.

3.2.7.1.3. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.

3.2.7.2. The City Parks and Recreation Department will work with the Parks Board to review recreation programs and establish specific cost recovery targets for broad program classifications.

### 3.2.8. Planning programs

3.2.8.1. The following cost recovery policies apply to the current planning programs:

3.2.8.1.1. Services provided under this category include:

3.2.8.1.1.1. Planning (planned development permits, tentative tract and parcel maps, rezonings, general plan amendments, variances, use permits).

3.2.8.1.1.2. Building and safety (building permits, structural plan checks, inspections, rental inspections).

3.2.8.1.1.3. Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments).

3.2.8.1.2. Cost recovery for these services should generally be very high. In most instances, the City's cost recovery goal should be 100%. Exceptions to this standard include any long-range planning services, as this function is clearly intended to serve the broader community.

### 3.2.9. Comparability with other communities

3.2.9.1. In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

3.2.9.1.1. Surveying other comparable communities provides useful background information in setting fees as they reflect the market for these fees and can assess where the City compares.

3.2.9.1.2. If prudently analyzed, they can serve as a benchmark for how cost-effectively the City provides its services.

3.2.9.1.3. However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:

3.2.9.1.3.1. What level of cost recovery is their fee intended to achieve compared with our cost recovery objectives?

3.2.9.1.3.2. What costs have been considered in computing the fees?

3.2.9.1.3.3. When was the last time that their fees were comprehensively evaluated?

3.2.9.1.3.4. What level of service do they provide compared with our service or performance standards?

3.2.9.1.3.5. Is their rate structure significantly different than ours and what is it intended to achieve?

3.2.9.1.4. These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of City of Lakeland fees to other communities should be one factor among many that is considered in setting City fees.

## 3.3. Sewer Fees and Rates

3.3.1. City will set fees and rates for the Sewer utility enterprise fund at levels that fully cover total direct and indirect costs, including operations, capital outlay and improvements, and debt service. The City will model five years of projected revenues and expenses, including capital improvements, and set or modify sewer rates via ordinance of the Board of Commissioners.

## 3.3.2. Debt service

- 3.3.2.1. The City will set Sewer enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration, and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

## 3.4. Stormwater Fees and Rates

- 3.4.1. The stormwater fees and rates are intended to fund operating costs of the Stormwater special revenue fund. Typically, the City will model five years of operating costs in order to recommend changes to stormwater fees to the Board of Commissioners for approval via ordinance. Major capital improvements will typically be funded by other funding sources or accumulated fund balance, if any.

## 3.5. Solid Waste Fees and Rates

- 3.5.1. The solid waste fees and rates are intended to fund operating costs of the Solid Waste special revenue fund. Typically, the City will model five years of operating costs in order to recommend changes to solid waste fees to the Board of Commissioners for approval via ordinance. Major capital improvements will typically be funded by other funding sources or accumulated fund balance, if any.

## 3.6. Grant Funding

- 3.6.1. The City shall actively seek grant funding to fund both operating and capital expenditures. Prior to acceptance of grant funding, an evaluation of the grant must determine the following:
  - 3.6.1.1. The grant purpose is compatible with City program objectives.
  - 3.6.1.2. The benefits provided by the grant exceed the cost of administration.
  - 3.6.1.3. The grant does not commit the City to long-term tax funded expenditures after the completion of the grant period. The City will evaluate the cost and funding source to determine whether to continue the service when the grant period ends. The decision to continue to fund or discontinue will be made prior to accepting the grant. Alternatively, the City could choose to continue the service with other funding.

## 3.7. Revenue Distribution

- 3.7.1. The City recognizes that GAAP discourages the earmarking of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City's management of its fiscal affairs. However, certain revenue sources may, from time to time, be committed or assigned via resolution or ordinance of the Board of Commissioners for dedicated expenditure purposes.

### 3.7.2. State Street Aid Fund

- 3.7.2.1. The State of Tennessee requires that intergovernmental revenues received by the City for certain state-wide gas and motor fuel taxes be segregated into a separate special revenue fund – the State Street Aid Fund. The revenues received from these taxes are restricted for use on street infrastructure and maintenance. While a special revenue fund with a designated revenue source, the City may from time to time supplement expenditures in this fund through transfers from the General Fund.

## 4. Resource Management

### 4.1. Purchasing

#### 4.1.1. Applicability

- 4.1.1.1. This chapter presents the City's purchasing policy. The City intends to purchase goods and services of high quality consistent with the expected use at the most reasonable cost. The purpose of the City purchasing policy is to provide guidance for all department and purchasing personnel involved in the procurement process. This policy applies to all City personnel involved in the procurement process and to all City purchases in any City fund.

## 4.1.2. Competitive procurement

4.1.2.1. Purchases less than \$2,500 – competitive bids or quotations for the purchase of items which cost less than \$2,500 are desirable but not mandatory. All purchases must be authorized by a purchase order approved by the City Manager, unless otherwise specifically exempt.

4.1.2.2. Purchases of \$2,500 and above, but less than \$10,000 – purchases, leases, and lease purchases of \$2,500 and above, and less than \$10,000 singly or in the aggregate during any fiscal year and, except as otherwise provided, shall require three (3) competitive bids or quotations, either verbal or written, whenever possible prior to each purchase.

### 4.1.2.3. Purchases of \$10,000 and above

4.1.2.3.1. A description of all projects or purchases, except as otherwise provided in this chapter, which require the expenditure of City funds of \$10,000 or more shall be prepared and submitted to the City Manager for authorization to call for bids or proposals.

4.1.2.3.2. The award of purchases, leases, or lease purchases of \$10,000 or more shall be authorized by the Board of Commissioners to the lowest and best responsible bidder.

4.1.2.3.3. The City Manager may approve the procurement of goods or services authorized in the annual operating budget, or subsequent budget amendment, and purchases that are routine to City operations provided that the purchase, lease, or lease-purchase does not impose any substantial long-term consequences upon the City

4.1.2.3.4. The transaction involving purchases, leases, or lease-purchases of \$10,000 or greater shall be evidenced by written contract.

### 4.1.2.4. Exceptions

4.1.2.4.1. Upon the written recommendation of the City Manager that it is clearly to the advantage of the City not to contract with competitive bidding, the Board may authorize noncompetitive contracts by resolution adopted unanimously by members present.

4.1.2.4.2. Purchases amounting to \$10,000 or greater, which do not require public advertising and sealed bids or proposals, may be allowed only under the following circumstances and, except as otherwise provided herein, when such purchases are authorized by the governing body:

4.1.2.4.2.1. Sole source of supply or proprietary products as determined after complete search by the City Manager or designee, after which the City Manager shall provide notification to the Board.

4.1.2.4.2.2. Emergency expenditures with subsequent approval of the City Manager or designee in accordance with the provisions herein.

4.1.2.4.2.3. Purchases from instrumentalities created by two or more cooperating governments.

4.1.2.4.2.4. Purchases from non-profit corporations whose purpose or one of whose purposes is to provide goods or services specifically to municipalities.

4.1.2.4.2.5. Purchases, leases, or lease-purchases of real property.

4.1.2.4.2.6. Purchases, leases, or lease-purchases from any federal, state, or local governmental unit or agency, of second-hand articles or equipment or other materials, supplies, commodities, and equipment.

4.1.2.4.2.7. Purchases through other units of governments as authorized by T.C.A. 6-56-30 I et seq.

4.1.2.4.2.8. Purchases directed through or in conjunction with the State Department of General Services.

4.1.2.4.2.9. Purchases from Tennessee State industries.

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- 4.1.2.4.2.10. Professional service contracts as provided in T.C.A. 29-20-407.
- 4.1.2.4.2.11. Tort Liability Insurance as provided in T.C.A. 12-4-407.
- 4.1.2.4.2.12. Purchases of perishable commodities.
- 4.1.2.4.2.13. Professional services as provided in Consultant Selection Policy for Projects funded in Whole or in Part with Funds Provided by the Federal Highway Administration or the Tennessee Department of Transportation (Local Government Guidelines Form 1-2)
- 4.1.2.5. Sealed bids or proposals
  - 4.1.2.5.1. Sealed bids are required on purchases of \$10,000.00 or more. Bids must be advertised in a local newspaper of general circulation not less than five days before bid opening date.
  - 4.1.2.5.2. All solicitations of offers shall clearly set forth all requirements which vendors must fulfill and all other factors to be used in evaluating bids, proposals, or statements of qualifications.
  - 4.1.2.5.3. Contracts shall be awarded only to responsible contractors/firms that possess the potential ability to perform successfully under the terms and conditions of the proposed procurement.
- 4.1.2.6. Recording bids - a summary of bids form should be used to record all bids. The form should be included in the information presented to the Board for consideration of award of the bid. All bids should be opened in public at a specified time. Late bids should not be accepted or opened.
- 4.1.2.7. Rejection of bids
  - 4.1.2.7.1. The City Manager may reject any and all bids when in the City's best interest. The City shall have the authority to reject any and all bids, parts of all bids, or all bids for any one or more supplies or contractual services included in the proposed contract, when the public interest will be served thereby.
  - 4.1.2.7.2. The City shall not accept the bid of a vendor or contractor who is in default on the payment of any taxes, licenses, fees, or other monies of whatever nature that may be due the City by said vendor or contractor.
- 4.1.2.8. Electronic bidding, invitations to bid, requests for proposals, and other solicitations
  - 4.1.2.8.1. Any authorized agent purchasing on behalf of the City may satisfy any requirement for mailing by distributing invitations to bid, requests for proposals and other solicitations electronically.
  - 4.1.2.8.2. The authorized agent may receive bids, proposals, and other offers electronically. Small businesses and minority-owned businesses shall not be required to receive or respond to invitations to bid, requests for proposals, or other solicitations electronically as provided in T.C.A 12-3-704.
- 4.1.2.9. Competitive sealed proposals
  - 4.1.2.9.1. The City may use competitive sealed proposals to purchase goods and services rather than competitive sealed bids when the City Manager or designee, acting under the restrictions and requirements of T.C.A. 12-3-10, determines that the use of competitive sealed bidding is either not practicable or not advantageous to the City as provided by the City's Purchasing Policy.
  - 4.1.2.9.2. The following conditions for use apply to purchases where competitive sealed proposals may be used in place of competitive bidding.
    - 4.1.2.9.2.1. Competitive sealed proposals may be used only when qualifications, experience, or competence are more important than price in making the purchase; and
    - 4.1.2.9.2.2. When there is more than one solution to a purchasing issue and the competitive sealed proposals will assist in choosing the best solution; or

- 4.1.2.9.2.3. When there is no readily identifiable solution to a purchasing issue and the competitive sealed proposals will assist in identifying one or more solutions.
- 4.1.2.9.3. Adequate public notice of the request for competitive sealed proposals shall be given in the same manner provided by applicable law for competitive sealed bids.
- 4.1.2.9.4. The award shall be made to the responsible proposer whose proposal the Board determines is the most advantageous to the City, taking into consideration price and the evaluation factors set out in the request for competitive sealed proposals. No other factor may be used in the evaluation.
- 4.1.2.10. Purchase orders - a pre-numbered Purchase Order form must be submitted prior to the purchase of any item, except as designated by the City Manager or designee, or otherwise provided within the City of Lakeland Purchasing Policy.
- 4.1.2.11. Purchase authorization by email or telephone - email and phone authorizations may be made in cases where, due to being out of the office, timely authorization is not possible. The City Manager shall appoint the authorizing person.
- 4.1.2.12. Sole-source and proprietary purchasing - sole-source or proprietary purchasing shall only be used when a vendor providing a good or service is the only source wherein no other acceptable substitutes or alternatives are available.
- 4.1.2.13. Emergencies
  - 4.1.2.13.1. Emergency purchases are essential purchases to be made only when normal functions and operations of the City would be hampered by purchasing in the regular manner, or where property, equipment, or life are endangered through unexpected circumstances and materials, services, etc., and are needed immediately.
  - 4.1.2.13.2. Competitive procurement according to the guidelines in the City's Purchasing Policy should be used when possible in emergencies.
- 4.1.2.14. Direct payments - purchases made for recurring services, most notably telephone, internet, and utility services, do not require the use of a purchase order when authorized by the City Manager or designee in advance.
- 4.1.2.15. Blanket purchase orders - blanket purchase orders may be used in circumstances wherein purchases from vendors are made for small or routine purchases, authorized at the first of each month, provided that the amount is less than \$250 per item.
- 4.1.2.16. Delegated purchasing authority - purchases up to \$500 may be authorized by a designated Supervisor. The City Manager may designate the persons who can authorize up to \$500 in purchases.
- 4.1.2.17. Gasoline - the City Manager or designee may authorize the purchase of gasoline for City vehicles at gas stations within the Lakeland City Limits without a Purchase Order.
- 4.1.2.18. Use of City's credit card and petty cash fund
  - 4.1.2.18.1. Purchases if items that cost less than \$40 from businesses that do not issue invoices or have charge accounts may be made by either credit card or withdrawals from the petty cash fund.
  - 4.1.2.18.2. The agent designated by the City Manager is solely responsible for any withdrawals from the petty cash fund.
  - 4.1.2.18.3. Purchases made by credit card must comply with the City's policy governing the use of credit cards.
  - 4.1.2.18.4. The City Manager or designee may authorize the use of debit or purchasing cards, and designate City personnel authorized to make purchases using said debit or purchasing cards in accordance with the same provisions in the City's policy governing the use of credit cards.

## 4.1.2.19. Invoices

4.1.2.19.1. All invoices for services or products must be signed as received by the person receiving the equipment or service before the City releases funds to a vendor.

4.1.2.19.2. All vendor checks for City purchases shall be mailed to the vendor address on file.

4.1.2.19.3. Exceptions under special circumstances must be approved by the City Manager of designee.

## 4.1.3. Ethics

4.1.3.1. City employees involved in the procurement process, as in any other area of City operations, shall behave according to the highest ethical and professional standards in their affairs, conducting such business with the utmost concern for and consideration of the public's trust in the City. In accordance with maintaining the public's trust, any ethical impropriety or the perception thereof should be avoided in all business involving the City of Lakeland.

4.1.3.2. As an employee of the City of Lakeland, all City employees shall notify their supervisor as well as the City Manager if the employee has any knowledge of another employee of the City violating any provision of the City's Purchasing Policy or any other unethical or unprofessional behavior immediately upon receiving such information.

## 4.1.4. Conflict of interest

4.1.4.1. No purchase shall be made from, nor any contract for purchase of services made with any person, firm, or corporation in which any officer or employee of the City has a direct financial interest except when such person, firm, or corporation is the sole source for such goods or services in Shelby County, Tennessee. In such instances, all purchases shall be subject to prior approval by the City Manager, any direct financial interest having been disclosed to the City Manager prior to authorization for the purchase.

4.1.4.2. Any indirect financial relationship with any person, firm, or corporation in which the City purchases goods or services shall be disclosed to the City Manager or designee. No officer or employee of the City shall accept directly or indirectly any fee, rebate, money, or other thing of value from any person, firm, or corporation employed by or doing business with the City, except on behalf of and for the use of the City, or in accordance with the exception herein above set forth.

## 4.1.5. Responsibility for purchasing and record-keeping.

4.1.5.1. The City Manager or designee shall be responsible for acting in accordance with the City of Lakeland Purchasing Policy, the procedures therein required, and the general law provisions of the Municipal Purchasing Law of 1983, as amended, including keeping and filing required records and reports, as if they were set out herein and made a part of the City's Purchasing Policy.

## 4.2. Human Resource Management

### 4.2.1. Applicability

4.2.1.1. This chapter provides the City's policy approach to human resource management in terms of regular staffing, temporary staffing, and the use of independent contractors in the City's efforts to ensure quality service delivery in the most efficient and cost-effective manner.

### 4.2.2. Regular staffing

4.2.2.1. The budget will fully appropriate the resources needed for authorized regular staffing and will limit programs to the regular staffing authorized.

4.2.2.2. Regular employees will be the core work force and the preferred means of staffing ongoing, year-round program activities that should be performed by full- and part-time City employees rather than independent contractors. The City will strive to provide competitive compensation and benefit schedules for its authorized regular work force. Each regular employee will:

- 4.2.2.2.1. fill an authorized regular position;
- 4.2.2.2.2. be assigned to an appropriate department and fund; and
- 4.2.2.2.3. receive salary and benefits (if applicable) consistent with the City's compensation plans.
- 4.2.2.3. To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
  - 4.2.2.3.1. The Board of Commissioners will authorize all regular positions (generally through the Annual Budget process, see chapter 2.1.).
  - 4.2.2.3.2. The City Manager shall approve the hiring of all regular and temporary employees.
  - 4.2.2.3.3. All requests for additional regular positions will include evaluations of:
    - 4.2.2.3.3.1. the necessity, term, and expected results of the proposed job description;
    - 4.2.2.3.3.2. staffing and materials costs including salary, benefits, equipment, uniforms, clerical support, and facilities;
    - 4.2.2.3.3.3. the ability of private industry to provide the proposed service; and
    - 4.2.2.3.3.4. additional revenues or cost savings which may be realized.
- 4.2.2.4. Periodically, and before any request for additional regular positions, programs will be evaluated to determine if they can be accomplished with fewer regular employees (see chapter 4.3. Productivity).
- 4.2.3. Temporary staffing
  - 4.2.3.1. The hiring of temporary employees will not be used as an incremental method for expanding the City's regular work force.
  - 4.2.3.2. Temporary employees include all employees other than regular employees, elected or appointed officials, and volunteers. Temporary employees will generally augment regular City staffing as extra-help employees, seasonal employees, contract employees, interns, and/or work-study assistants.
  - 4.2.3.3. The City Manager and department directors will encourage the use of temporary rather than regular employees to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less than full-time year-round staffing is required. Under this guideline, temporary employee hours will generally not exceed fifty (50) percent of a regular full-time position. There may be limited circumstances where the use of temporary employees on an ongoing basis in excess of this target may be appropriate due to unique programming or staffing requirements. However, any such exceptions must be approved by the City Manager.
  - 4.2.3.4. Contract employees are defined as temporary employees with written contracts approved by the City Manager and/or Board of Commissioners who may receive approved benefits depending on hourly requirements and the length of their contract. Contract employees will generally be used for medium-term (generally between six months and two years) projects, programs, or activities requiring specialized or augmented levels of staffing for a specific period. The services of contract employees will be discontinued upon completion of the assigned project, program, or activity. Accordingly, contract employees will not be used for services that are anticipated to be delivered on an ongoing basis, except for as-needed services provided by independent contractors or contract employees filled temporarily by the City Manager due to extended vacancies in critical regular staff roles.
- 4.2.4. Independent contractors
  - 4.2.4.1. Independent contractors are not City employees. They may be used in two situations:
    - 4.2.4.1.1. Short-term, peak workload assignments to be accomplished using personnel contracted through an outside temporary employment agency ("OEA"). In this situation, it is anticipated that City staff will closely monitor the work of OEA employees and minimal training will be required. However, they

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will always be considered the employees of the OEA and not the City. All placements through an OEA will be coordinated through the Human Resources Department and subject to the approval of the City Manager and Finance and Human Resources Director.

- 4.2.4.1.2. Construction of public works or other capital projects and delivery of operating, maintenance, or specialized professional services not routinely performed by City employees. The City Manager may authorize the services of an independent contractor to fill temporary, unexpected, or prolonged vacancies in regular staff roles. Such services will be provided without close supervision by City staff, and the required methods, skills, and equipment will generally be determined and provided by the contractor. Contract awards will be guided by the City's purchasing policy (see chapter 4.1. Purchasing).

## **4.3. Productivity**

### 4.3.1. Applicability

- 4.3.1.1. This chapter on productivity is designed to ensure delivery of City services at the highest level of quality while optimizing and managing costs.

### 4.3.2. Productivity standards

- 4.3.2.1. The City will constantly monitor and review its methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible. This review process encompasses a wide of productivity issues, including:

- 4.3.2.1.1. Analyzing systems and procedures to identify and remove unnecessary review requirements.
- 4.3.2.1.2. Evaluating the ability of new technologies and related capital investments to improve productivity.
- 4.3.2.1.3. Developing the skills and abilities of all City employees.
- 4.3.2.1.4. Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
- 4.3.2.1.5. Evaluating the ability of the private sector to perform the same level of service at a lower cost.
- 4.3.2.1.6. Periodic formal reviews of operations on a systematic, ongoing basis.
- 4.3.2.1.7. Maintaining a decentralized approach to managing the City's support service functions. Although some level of centralization is necessary for review and control purposes, decentralization supports productivity by:
  - 4.3.2.1.7.1. encouraging accountability by delegating responsibility to the lowest possible level;
  - 4.3.2.1.7.2. stimulating creativity, innovation, and individual initiative;
  - 4.3.2.1.7.3. reducing the administrative costs of operation by eliminating unnecessary review procedures;
  - 4.3.2.1.7.4. improving the City's ability to respond to changing needs, and identify and implement cost-saving programs; and
  - 4.3.2.1.7.5. assigning responsibility for effective operations and citizen responsiveness to each department.

## **5. Financial Reporting**

### **5.1. Accounting, Auditing, and Financial Reporting**

#### 5.1.1. Applicability

- 5.1.1.1. This chapter on accounting, auditing, and financial reporting shall apply to all funds and departments of the City of Lakeland.

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## 5.1.2. Policy

5.1.2.1. The City shall maintain a system of financial monitoring, control, and reporting for all operations and funds in order to provide effective means of ensuring that overall City goals and objectives are met.

### 5.1.2.2. Accounting records and reporting

5.1.2.2.1. The City will maintain its accounting records in accordance with state and federal law and regulations, as well as any specific requirements related to grant agreements. Budgetary reporting will be in accordance with the State's budget laws and regulations. The City will report its financial condition and results of operations in accordance with City charter, state regulations, and GAAP applicable to governments.

5.1.2.2.2. The Finance and Human Resources Director shall report to the Board of Commissioners 1) budget to actual comparisons for each governmental fund and 2) financial plan to actual comparisons for each enterprise fund on a monthly basis in the treasurer's report.

### 5.1.2.3. Auditing

5.1.2.3.1. The City Manager and Finance and Human Resources Director, with approval by the Board of Commissioners, will contract with an external Certified Public Accountant ("CPA") firm with experience in municipal auditing, and of good reputation, to annually perform the City's financial and compliance audit. Their opinions will be contained in the City's annual audited financial statements or Comprehensive Annual Financial Report ("CAFR"). Results of the annual audit shall be provided to the Board of Commissioners, the State of Tennessee, the Federal Audit Clearinghouse, and any other bodies required by regulation or agreement, in a timely manner and in no wise later than the filing due dates.

### 5.1.2.4. Excellence in financial reporting

5.1.2.4.1. As an additional independent confirmation of the quality of the City's financial reporting, the City will annually seek to obtain the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The CAFR will be presented in a way designed to communicate with citizens about the City's financial affairs.

### 5.1.2.5. Simplified fund structure

5.1.2.5.1. The City shall seek to minimize the number of funds. The funds will be categorized in accordance with GAAP for reporting purposes.

## 5.1.3. Responsibility for accounting, auditing, and financial reporting

5.1.3.1. The Finance and Human Resources Director shall be responsible for the enforcement of the City's accounting, auditing, and financial reporting policies and establishing and monitoring any related procedures, including retaining and filing related auditing financial reports will all required regulatory bodies.

## 6. Version History

6.1. Version 1.0, adopted by Resolution 20/04-01

