

# City of Murfreesboro Financial Policy Statements

June 2016

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## Overview

The following financial policies adopted by Resolution No. 10-R-26 of the City Council of Murfreesboro, Tennessee on September 16, 2010 (the “Resolution”) (“Financial Policy Statements”) establish the framework for the City of Murfreesboro Tennessee’s (the “City”) overall fiscal planning and management. These policies do not apply to the Murfreesboro Pension Fund, Murfreesboro Electric Department, Murfreesboro Water and Sewer Department, Murfreesboro Stormwater Fund, Murfreesboro City Schools, Evergreen Cemetery or any of their related funds.

The financial policies set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. These publicly adopted financial policies are also intended to demonstrate to residents, the credit rating industry, municipal bond investors, auditors and the State Comptroller that the City is committed to sound financial management and fiscal integrity.

The financial policies also improve the City’s fiscal stability by helping City officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can improve City bond ratings, lower the cost of capital, manage interest rate risk exposure, and preserve financial flexibility. It is presumed that these policies are consistent with all laws and regulations, but such laws and regulations shall control in the event of a conflict or discrepancy.

1. The City will adopt and maintain these Financial Policy Statements to guide its decision making in the areas of budget, fund balance, capital improvement planning, debt management, investments and cash management. These financial policies can provide guidance during the preparation and deliberation of the City’s annual budget and other policy decisions that impact the City’s financial condition. The Financial Policy Statements will be reviewed annually during preparation of the budget.
2. The City will maintain a system of financial monitoring, control and reporting for all operations and funds held on behalf of the City.
3. The City will strive to synchronize its annual budget, capital improvement plan, Council-established goals and planning studies in a comprehensive manner reflected in the published budget, annual capital improvement plan and annual comprehensive financial report.
4. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health.
5. The City’s accounting and financial reporting systems will be maintained in conformance with all federal and state laws, generally accepted accounting principles (GAAP) and standards of the Government Accounting Standards Board (GASB) and Government Finance Officers Association (GFOA).
6. An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the City’s published Comprehensive Annual Financial Report (CAFR).
7. The independent auditor will present the CAFR and discuss audit findings at a public meeting.
8. The City intends to participate in the GFOA Certification of Achievement for Excellence in Financial Reporting Program.
9. The City’s CAFR will be submitted to the Electronic Municipal Market Access (EMMA) as required to meet continuing disclosure requirements.
10. The City Charter also prescribes certain duties and responsibilities of the City Recorder, City Treasurer and City Manager that are not amended or changed by these policies. In the event of a conflict, the City Charter or City Code shall control.

## Operating Budget Policies

### General

The City will use a long-term perspective to examine short term operations and capital planning to maintain stability in the City's finances, make the organization an efficient and effective provider of needed services, maintain good credit ratings and prepare for unforeseen emergencies.

1. In accordance with the City Charter Section 74, the City Manager will submit the proposed budget to City Council not later than May 15<sup>th</sup>.
2. The City Manager's proposed budget will include revenues and expenditures detailed by fund, program and activity for four years (two years prior, current year budget and estimated and the proposed budget year).
3. The City Council will adopt a balanced operating budget using current revenues which may include use of Fund Balance. The budgeting of Fund Balance, as described in the Fund Balance Policies herein, for operating capital has been a historical practice of the City.
4. The budget process will incorporate a long-term perspective that will help assess the impacts of current and proposed operating and capital budgets in order to develop appropriate strategies to achieve the goals of financial stability, efficient operations, good credit ratings and preparedness for the unforeseen.
5. The City Manager and Finance Director/City Recorder will project revenues and expenditures over time using assumptions about economic conditions, historical and current financial performance, major goals and projects and other relevant factors.
6. The budget will reflect the City's broad organizational goals. These broad goals are reflected in the master plans for transportation, land use, recreation, other studies and through information communicated during the preparation of the annual budget and capital improvement plan.
7. The budget document will include the City's financial policies, goals, and budget calendar.
8. The budget will involve and promote effective communications with residents, including conducting a public hearing prior to the final approval of the budget.
9. The budget process is intended to weigh competing requests for City resources, within expected fiscal constraints.
10. Requests for new, on-going programs made outside the budget process will be discouraged.
11. The City Manager will provide financial updates relative to the established budget to the City Council during the fiscal year. The City Manager and City Council will determine the schedule for the frequency and content of these reports. The Finance Department will provide monthly statements of expenditures to department heads after closeout of each month.
12. Budget amendments must be approved by the City Council. Generally, these will be considered annually at the conclusion of the fiscal year.

### Revenue

1. The City will maintain diversified and stable revenues to shelter it from the impact of short-term fluctuations in any one revenue source. The City will strive to further broaden the revenue stream, to the extent possible, including the diversifying of the property tax base and local sales tax generators.
2. The City Council will adopt a tax rate adequate to meet the financial obligations of the City each year.

3. Nonrecurring revenues and other financing resources will not be used to finance ongoing operations with the exception of the use of approved grants or the use of Fund Balance under fund balance policies.
4. Revenue estimates will be conservative and based upon trend analysis, economic conditions and other factors and will be established by the City Manager and Finance Director/City Recorder.
5. The City will annually review its fees and other charges for service to ensure that revenues are meeting intended program goals and are keeping pace with inflation, other cost increases and any applicable competitive rate.
6. Grants will be spent for the purposes intended and will not be relied on for basic general fund services.
7. All potential grants will be carefully examined for matching requirements (both dollar and level-of-effort matches). The City will vigorously pursue grants for capital projects that fit long-range community improvements goals. The City will review grants for operating programs on an individual basis to determine the suitability of accepting the grants from a sustainable long-term financial perspective.
8. The City will use appropriate methods to collect monies owed on property taxes, court judgments and other sources.

## Expenditures

1. Current operating expenditures will be funded with current operating revenues, approved grants or under the approved policy for the use of fund balance.
2. The City will pursue goals of efficiency and effectiveness by balancing short term and longer-term community interests.
3. Where possible, performance measures and productivity indicators will be integrated into the budget.
4. Department Heads are charged with budgetary responsibility of managing expenditures of their departments. Department heads are expected to manage total expenditures within the limit established by City Council during the budget process for the fiscal year. The department head shall notify the City Manager and Finance Director in writing as soon as possible when it is identified that total expenditures are expected to exceed the authorized limits of the adopted budget.
5. During the fiscal year, the City Manager and Finance Director/City Recorder will monitor revenues and expenditures monthly to compare actual performance to budget. Regular monitoring is intended to provide an opportunity for actions to be taken to bring the budget back into balance.
6. The number of full-time authorized positions is set by the City Council during the annual budget approval. Any additions to the number of full-time authorized positions must be approved by City Council.
7. The annual budget will include a line item for funding of unforeseen needs of an emergency and non-recurring nature. The target "Unforeseen Contingency" line item will be \$500,000.
8. At this time, the City chooses not to use derivative financial structures in the management of the City's expenditures. Prior to any proposed use of derivatives, a written management report detailing the positive and negative consequences of the structures will be presented and adopted by City Council.

## Fund Balance Policies

The City's Fund Balance is the accumulated difference between assets and liabilities within governmental funds. A sufficient fund balance allows the City to meet its contractual obligations, provide funds for new and existing programs established by City Council, mitigate negative revenue implications of federal or state budget actions, mitigate economic downturns, fund disaster or emergency costs, provide funds for cash flow timing discrepancies and fund non-recurring expenses identified as necessary by City Council.

This policy establishes limitations on the purposes for which Fund Balances can be used in accordance with Governmental Accounting Standards Board Statement Number 54. The City's financial statements will report up to five components of Fund Balance: (1) Non-spendable Fund Balance; (2) Restricted Fund Balance; (3) Committed Fund Balance; (4) Assigned Fund Balance and (5) Unassigned Fund Balance.

### *Non-spendable Fund Balance*

According to GASB, "Fund balance is only an approximate measure of liquidity. One reason is that some of the assets reported in governmental funds may be inherently non-spendable from the vantage point of the current period. There are assets that will never convert to cash (e.g., prepaid items and inventories of supplies); assets that will not convert to cash soon enough to affect the current period (e.g., non-financial assets held for resale, such as foreclosed properties); and resources that must be maintained intact pursuant to legal or contractual requirements (e.g., capital of a revolving loan fund). Accountants signal this practical constraint on spending by labeling the relevant portion of fund balance as non-spendable fund balance.

### *Restricted Fund Balance*

Restricted fund balance represents that portion of fund balance that is subject to externally enforceable legal restrictions. Such restrictions typically are imposed by parties altogether outside the government such as creditors, grantors, contributors or other governments. Restrictions can also arise when the authorization to raise revenues is conditioned upon the revenue being used for a particular purpose (e.g., gas tax for road construction).

### *Committed Fund Balance*

Committed fund balance represents that portion of fund balance whose use is constrained by limitations that the government imposes on itself at the highest decision making level (City Council) and remains binding unless removed in the same manner.

### *Assigned Fund Balance*

Assigned Fund Balance describes that portion of fund balance that reflects a government's intended use of resources. Such intent can be established by the governing body, another body or official designated for that purpose.

There are two essential differences between committed fund balance and assigned fund balance. First, committed fund balance requires action by the highest level of decision-making authority (City Council). Second, formal action is necessary to impose, remove or modify a constraint reflected in the committed fund balance, whereas less formality is necessary in the case of assigned fund balance.

*Unassigned Fund Balance*

The general fund will often have net resources in excess of what can properly be classified in one of the four categories described above. If so, that surplus is presented as unassigned fund balance.”

Source: What Everyone Needs to Know about the New Fund Balance, Stephen J. Gauthier, GFOA

1. An adequate fund balance can provide a financial cushion against the shock of unanticipated circumstances and events, such as revenue shortfalls, unanticipated expenditures, natural disasters or other event.
2. The City will seek to maintain an unassigned fund balance between fifteen percent (15%) and thirty percent (30%) of General Fund operating revenues.
3. The following circumstances may justify a higher target level of fund balance:
  - a. Significant volatility of operating revenues or expenditures;
  - b. Potential drain on resources from other funds facing financial difficulties;
  - c. Exposure to natural disasters;
  - d. Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;
  - e. Rapidly growing budgets;
  - f. Rapid population growth;
  - g. Significant demand for infrastructure and capital projects;
  - h. Significant exposure to variable rate debt;
  - i. Disparities in timing between revenue collections and expenditures.
4. The Assigned Fund Balance consists of funds set aside by management and intended for a specific purpose or project. The City Manager will communicate in writing to City Council assigned fund balances, which will include the purpose of the assignment. Although the City Manager may assign portions of the fund balance to designated purposes, any expenditure of fund balance is still subject to the provisions of the City Charter, City Code and/or TCA.
5. If spending in designated circumstances has reduced unassigned fund balance below the targeted minimum level, it should be replenished until the balance is restored to the minimum level. The source of funds and the period over which the replenishment is to occur should be provided to the City Council by the City Manager and Finance Director.
6. The following information outlines the City of Murfreesboro’s Fund Balance Spending Policies by fund type:

**a. General Fund**

Revenues earned in the General Fund may be restricted, committed, assigned, or unassigned for specific purposes.

If there is no provision in a grantor agreement regarding earnings on grant proceeds, earnings will be unassigned to for use of the General Fund.

If a grant agreement involves a local match, the match will be considered assigned for the purpose of the grant by Mayor and Council upon approval of the grant. This may result in assigned fund balance being spent before restricted fund balance.

Unless otherwise stated, fund balance will be spent in the following order:

- Restricted
- Committed
- Assigned
- Unassigned

**b. Capital Projects**

Revenues earned in Capital Projects accounts are assigned unless otherwise restricted or committed and can only be used for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

If there is no provision in a grantor agreement regarding earnings on grant proceeds, earnings will be assigned the capital projects fund as outlined above.

If a grant agreement involves a local match, the match will be considered assigned for the purpose of the grant by Mayor and Council upon approval of the grant. This may result in assigned fund balance being spent before restricted fund balance.

Unless otherwise stated, fund balance will be spent in the following order:

- Restricted
- Committed
- Assigned
- Unassigned

**c. Debt Service**

Transfers in and revenues earned in the Debt Service Fund are assigned unless otherwise restricted or committed and can only be used for activities related to debt and/or financing.

Unless otherwise stated, fund balance will be spent in the following order:

- Restricted
- Committed
- Assigned
- Unassigned

**d. Special Revenue**

Special Revenue funds are either restricted or committed to the purpose of that individual fund. Revenues earned in Special Revenue accounts are committed unless otherwise restricted and can only be used for the purpose of that individual fund.

If a grant agreement involves a local match, the match will be considered assigned for the purpose of the grant by Mayor and Council upon approval of the grant. This may result in assigned fund balance being spent before restricted fund balance.

Unless otherwise stated, fund balance will be spent in the following order:

- Restricted
- Committed
- Assigned
- Unassigned

## Capital Improvement Plan Policies

In order to ensure proper planning, funding and implementation of the provision of public facilities and infrastructure, the replacement of expendable assets at the end of their useful lives, and provide for major maintenance and capital improvements for current assets, a Capital Improvements Plan (CIP) will be adopted by City Council. It is a financial planning and management tool that establishes priorities, matches projects with their potential internal and external funding sources, ensures the orderly improvement or replacement of fixed assets and provides an estimate of the size and timing of future bond issues or loans.

1. The City Manager will prepare and submit to City Council on an annual basis a Capital Improvement Plan (CIP), which identifies major projects.
2. The CIP will include a schedule for completion of each project, its general scope, estimated costs, identification of funding sources and financing requirements in future years.
3. The CIP will include projects and capital purchases which cost more than \$50,000, either individually or in aggregate, with a life of at least five years.
4. The development and adoption of the CIP will consider planning studies, comprehensive reports, such as the Major Thoroughfare Plan, and other master plans. These long-range planning tools will help guide the selection and prioritization of projects in the CIP.
5. The City Manager and department heads will use a database that will take into account the following factors:
  - a. Appropriate technological solutions for project accounting, scheduling and reporting, which may include spreadsheets, project management software and customized databases.
  - b. The roles of staff, including access, input and editing privileges for system users charged with compiling, analyzing, and reporting financial and management information.
  - c. The process for controlling and managing project changes.
  - d. Accountability and data integrity within the financial management system.
  - e. Data accuracy.
  - f. Triggers and protocols for identifying and addressing project cost overruns.
6. The designated project managers will regularly monitor capital projects' financial and development activities and recouping of funding from other sources, such as developer agreements. Any major deviations in cost, schedule or scope will be reported through the chain-of-command. During the course of the project, the designated project manager will be responsible for tracking and initiating collection of any income or contributions to the project.
7. The project manager will close out the project, including necessary reporting regarding asset management, letters of credit or other sureties, any grant reporting requirements, collection of assessments related to third-party contracts and financial reporting.
8. Pay-as-you-go financing will be used when possible and economically prudent to conserve debt capacity for future bond issues or loans

## Debt Policies

The debt policy serves as a public commitment by the City Council to manage the financial affairs of the City so as to minimize risks while still meeting the capital needs of the City. A debt management policy signals to the credit rating services that Murfreesboro is using a disciplined approach to financing the City's capital needs.

This debt policy addresses two areas: (1) the strategy for planning, structuring and managing the City's debt portfolio and (2) the process for transaction execution, including how debt is sold and procurement of the third-parties who assist the City in structuring and marketing the obligations.

The overarching goal for Murfreesboro is providing the highest quality of services to our residents at the lowest possible cost. To accomplish this, along with other strategies, the City strives to maintain and improve its current credit ratings from multiple rating services considering the demographics, capital needs, ability to budget and the maintenance of financial flexibility. This lowers the cost of borrowing and helps with long term planning of capital needs.

## Overview

1. Long term debt shall not be used to finance current operations. The City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and stringent budgeting.
2. The useful life of assets to be purchased or built with bonded debt proceeds shall not be less than the maturity of the underlying debt. The City will continue its long standing general practice of retiring debt within fifteen (15) years, but in no situation shall the life of the bonds exceed the Charter imposed limit of forty (40) years.
3. An adopted capital improvements plan shall be the basis of determining borrowing, both as to the amount and the timing of debt sales. The City will plan and manage debt with a "top-down" approach that is not driven by specific projects.
4. The City Charter prescribes a general obligation debt limit of fifteen percent (15%) of assessed value. The Charter provides that revenue supported debt is excluded from the calculation and also provides Council with the method to exceed that limitation.
5. The City's practice has been to issue General Obligation debt with up to fifteen (15) year maturities in order to rapidly recapture its authorized bonding capacity. The percentage of debt retired over a ten year period may be adjusted for economic conditions and the pace of growth.
6. Because of the City's choice to issue primarily fifteen year debt, the City recognizes that the percentage of debt service to the overall budget is higher than Murfreesboro's peer group cities (See Recommended Debt Ratio No. 12 below). It is recognized that the annual General Fund debt service holds and pays the debt for other governmental funds, including City Schools, Solid Waste and Parks and Recreation. How this percentage is established should be determined by the growth rate of the community, overall financial condition of the City and current guidance from the bond rating agencies and will be evaluated annually along with the capital improvement plan.
7. The City will strive to retire sixty five percent (65%) of its General Obligation debt over a ten year period, but in no case shall it retire less than fifty percent (50%) of its outstanding obligation each ten years. If the City uses a longer maturity than 15 years, this policy will be amended accordingly.
8. The City will seek to structure its General Obligation debt with level debt service payments over the life of each individual bond issue. As a rule, the City will not backload, use "wrap around"

techniques or balloon payments to pursue new projects. Revenue and Tax Increment debt, when utilized, may be structured to match new incomes derived from the construction of the project. Capitalized interest for periods not exceeding three years is appropriate when financing new revenue generating projects. When refunding opportunities, natural disasters or other external factors occur, the City may utilize non-level debt methods if it is in the City's best interest.

9. General Obligation bonds typically have lower interest rates than any type of revenue bond. The City will use its General Obligation pledge with revenue bond issues when the populations served by the revenue bond projects overlaps or significantly are the same as the property tax base of the City. The City Council and management are committed to maintain rates and fee structures of revenue supported debt at a level where no subsidy from the City's General Fund is required. The use of "wrap arounds," backloading or balloon payments will be thoroughly discussed with the City's Financial Advisor and City Council prior to implementing any of these techniques.
10. The City will comply with all legal requirements for notice of public meetings related to debt issuance.
11. In the interest of transparency, all costs (whether interest, issuance, continuing or one-time) will be disclosed to City Council, residents and stakeholders in a timely manner. Upon issuance of new debt, the City will disclose these costs on the City's website. A copy of said web page posting shall be maintained by the Finance Director.

## Recommended Debt Ratios

12. Direct debt includes all long-term obligations directly supported by general revenues and taxes. It does not include interest expenses. Net direct debt (sometimes called net bonded debt) excludes self-supporting debt. Direct General Obligation debt service should not exceed thirty three percent (33%) percent of the annual operating budget of the General Fund.
13. Direct General Obligation debt should not exceed two and one half percent (2.5%) of the full real estate value for taxation purposes of the City, as determined by the Rutherford County Property Assessor. This number should be determined by the growth rate of the community, overall financial conditions of the City and the current guidance from the bond rating agencies and will be evaluated annually along with the capital improvement plan.
14. At the time debt is issued, direct debt per capita should not exceed \$2,600 per person as calculated by the most recent census. This number should be determined by the growth rate of the community, overall financial conditions of the City and the current guidance from the bond rating agencies and will be evaluated annually along with the capital improvement plan.

## Variable Rate Debt Obligations

15. The City recognizes the value of variable rate debt obligations (VRDO's) and has greatly benefitted from the use of these bonds in the financing of needed infrastructure. The changing economic climate, the failure of bond insurance companies to retain their AAA credit ratings, the difficulty of obtaining letters of credit and other liquidity features and the failure of auction-rate variable instruments has required all municipal issuers to reassess the role that variables play in debt financing. The City will avoid over-reliance on variable rate debt due to the volatility seen in those credit markets. If variable rate debt is greater than 50 percent, the City and its financial advisor should closely analyze whether additional variable rate debt is preferred.
16. The City will closely follow state legislative requirements and guidance from the credit rating agencies in adjusting this policy from time to time.

17. The City may use VRDO's with the purchase of assets with expected useful life of less than ten years, for construction financing on major multi-year projects and in other situations where fixed rate financing is not feasible.
18. In addition to the diversification of the VRDO debt portfolio of the City, the City's general practice is to budget variable rate debt service at least one percent over the past twelve month's average if interest rates have been stable. It is important to maintain strong unassigned Fund Balances to mitigate the potential negative exposure to market changes in variable rate debt. If interest rates are volatile, the City will budget interest costs using a larger safety factor.
19. With recommendation from the City's Financial Advisors, the City may use third-party credit enhancement techniques when financial savings can be obtained or unnecessary risk can be avoided. Diversification of risk will be a consideration in selecting third-party credit enhancement or liquidity providers.
20. At this time, the City chooses not to use derivative financial structures in the management of the City's debt portfolio. Prior to any proposed use of derivatives, a written management report detailing the positive and negative consequences of the structures will be presented and adopted by City Council.

## Sale of Debt

21. 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.
22. The City will utilize a financial advisor to review debt policies, evaluate the capital improvement plan, examine the capacity of the City for additional debt, follow and understand market conditions, structure the bond offering to best fit those market conditions, prepare and lead staff through the credit rating agency process, obtain access to credit enhancements when needed and conduct the actual sale of the bonds. This is a "trust relationship" with the Financial Advisor having fiduciary responsibilities to the City.
23. The Financial Advisor shall fully disclose all existing client and business relationships between and among all professional participants in the debt issuance process to prevent any appearance of a conflict of interest. The Financial Advisor shall refrain from entering into any future relationship that might give rise to a conflict of interest for the duration of the time period during which they serve the City.
24. Upon recommendation of the City Manager, the Financial Advisor will be selected by City Council after thorough review of the firm's credentials and experience in a merit based process. The relationship between the City and its Financial Advisor should be reviewed every three to five years.
25. The City shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions.
26. Whether in a competitive 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.
27. Because of the importance of the Financial Advisor to the City's ability to sell debt in the most efficient manner, the City will require the Financial Advisor to maintain its independence and not serve as an underwriter or broker/dealer of the City's bonds throughout the time of their engagement.

28. Likewise, the City must employ Bond Counsel to render an opinion on the tax exempt nature of the bonds and that all legal requirements for issuance of the debt have been correctly performed. Bond counsel will be selected by a merit based process and the relationship will be reviewed at the time of issuance of new bonds. The City's Bond Counsel shall fully disclose all existing client and business relationships between any other transaction participants in the debt issuance process to prevent any appearance of a conflict of interest. The Bond Counsel shall refrain from entering into any future relationships that might give rise to a conflict of interest for the duration of the time period during which they serve the City.
29. 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 for a 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.)
  - a. If bond counsel for a debt transaction does not represent the City in that transaction, the City will enter into a fee payment letter agreement with such lawyer or law firm specifying: the party represented in the debt transaction; and
  - b. the City's obligation with respect to the payment of such lawyer or law firm's fees and expenses.
30. Underwriters are required participants in negotiated bond sales. The primary role of the Underwriter in a negotiated sale is to market the City's bond to investors.
31. Underwriters of City bond transactions shall not serve as the Financial Advisor to the City in the same debt or derivative transaction. A Financial or Swap Advisor cannot resign and become the Underwriter of a debt transaction. The Underwriter must not be selected until after a Financial Advisor has been engaged for the debt transaction.
32. The Underwriter must have documented experience in underwriting similar cities with financings of comparable size, structure and complexity. The Underwriter is to be selected in a fair process with the assistance of the Financial Advisor. The relationship will be reviewed at each new issuance of debt by the City.
33. The City shall require the Underwriter to 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 a purchaser of securities in an arm's-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 shall be required to provide pricing information both as to interest rates and to takedown per maturity to the City Council in advance of the pricing of the debt. The Underwriter must disclose all relationships (including fees and payments) to any other transaction participant outside of the transaction. The Underwriter shall fully disclose all existing client and business relationships between any other transaction participants in the debt issuance process to prevent any appearance of a conflict of interest. The Underwriter shall refrain from entering into any future relationships that might give rise to a conflict of interest for the duration of the time period during which they serve the City.
34. The City reserves the right to approve the selection of the Underwriter's Counsel.
35. The Underwriter's Counsel must disclose all relationships (including fees and payments) to any other transaction participant outside of the transaction. The Underwriter's Counsel shall fully disclose all existing client and business relationships between any other transaction participants in the debt issuance process to prevent any appearance of a conflict of interest. The Underwriter's Counsel shall refrain from entering into any future relationships that might give rise to a conflict of interest.

36. All other 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, 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.
37. 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.
38. All professionals subject to the Municipal Securities Rulemaking Board (MSRB) must comply with its rules regarding issuance of debt which constitutes a security.
39. The City will sell its debt using the method of sale that is most likely to achieve the lowest cost of borrowing while in compliance with federal and state law. This analysis takes into account bond structure, underlying security, credit ratings and other factors pertaining to the bond issue that may impact the ability for the efficient sale of debt.
40. The City's preferred method of sale is through competitive bid. However, when advised by the Financial Advisor that a negotiated sale may be the most advantageous (refinancing or unusual structures of debt), the City may enter into negotiated or private placement of the bonds. Any sale of bonds must conform to current Tennessee law.
41. The City will provide through its website and/or through EMMA, copies of annual budget documents, comprehensive annual financial reports, official statements of debt issues and other financial and operating information in a timely fashion. In addition, the following material events will trigger disclosure of any information pertaining to the City's debt issues:
  - a. Principal and interest payment delinquencies;
  - b. Non-payment related defaults;
  - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
  - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
  - e. Substitution of credit or liquidity providers, or their failure to perform;
  - f. Adverse tax opinions or events affecting the tax-exempt status of the security;
  - g. Modifications to rights of security holders;
  - h. Optional contingent or unscheduled Bond calls;
  - i. Defeasances;
  - j. Release, substitution, or sale of property securing repayment of the securities;
  - k. Rating changes
  - l. Failure to provide annual financial information as required
  - m. Any other changes that may be required

## Refunding Debt

42. Opportunities for refunding bond issues should be surveyed semiannually or when there are big swings in the interest rate environment.
43. Refunding opportunities shall be reported to the Council if net present value savings of [3%] or more can be achieved. The option value of each maturity for refunding consideration should also be reviewed by the Finance Director and the Financial Advisor to determine favorability as a refunding candidate.
44. Comprehensive cost information associated with a refunding shall be reported to the Council as well a complete plan of refunding detailing the costs and benefits of each option.
45. Refunding opportunities for revenue bonds should be considered if restrictive covenants prevent the issuance of other debt or create other restrictions on the financial management of revenue producing activities.

## Investment Policies

The funds of the City (with the exception of Pension Funds) will be invested in accordance with state law, including Tennessee Code Annotated (TCA) 6-56-106, which sets out authorized investments for Tennessee municipalities and within the parameters of this policy. The investment officers will diversify instruments to avoid unreasonable risks inherent in over investing in specific instruments, individual institutions or maturities. Funds of the Employees' Pension Trust are subject to different investment guidelines, which are established by the Pension Committee and City Council.

1. The City's investments shall be managed in such a manner as to attain a market average rate of return throughout all economic cycles. Preserving and protecting the capital will always be first priority followed by liquidity and yield.
2. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.
3. Investment decisions should not incur unreasonable investment risks in order to obtain above market investment income.
4. The standard of prudence to be applied shall be the "prudent investor rule", which states "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."
5. The prudent investor rule shall be applied in the context of managing the overall portfolio.
6. Before the City invests any of its funds in Collateralized Certificates of Deposit, competitive bids will be requested. All interested banks will be notified several working days prior to the date of bidding as to the amount and duration of investments. On the date of bidding, the request for bids will be sent out by e-mail or fax machine to all banks that have a collateral security agreement in place. The bidding will end at a time established and communicated in the official notification to interested banks after which time the winning bank will then be notified. All bids will be made on a 360 day basis or adjusted to a 360 day basis for comparison.
7. The City Recorder, Finance Director, City Treasurer and City Manager are designated as the investment officers of the City and are granted the authority to make investment decisions jointly within the parameters of the policy.
8. The investment officers will monitor the content of the investment portfolio, the available markets and the relative values of the qualifying investments, and will have privileges of adjusting the portfolio accordingly. No investments will be considered that are not described in the investment policy.
9. All investments of the City will meet the maturity standards prescribed in state law, including TCA Section 6-56-106.

## **Investment Risk Management**

1. In order to minimize custodial credit risk, all deposits with financial institutions are required to be secured in one or a combination of the following ways:
  - a. FDIC coverage
  - b. By designated collateral securities under a collateral agreement with the institution, or
  - c. By the institution's participation in the Tennessee collateral pool.
2. Interest rate risk will be managed through limiting maturities on investments. The following limits will apply to original maturities on investments:
  - a. No greater than 50% of the total General Fund portfolio may be invested for periods longer than 2 years at any time.
  - b. No amounts may be invested with original maturities for periods greater than prescribed by TCA Section 6-56-106.

## Cash Management Policies

1. The City recognizes that effective cash management is an integral component of sound financial management. Therefore, it is the policy of the City that funds deemed idle, based on projected cash flow and shall be invested in a manner that seeks to maximize their productivity until such time as they are needed for the operations of the City. Investments shall be at the highest rates obtainable at the time of investment, within the limitations of the law and our prudent investment policy. The City's investment portfolio shall be designed and managed in accordance with the responsibility of ensuring the public's trust and shall also be consistent with state and local laws.
2. Responsibility for the management of the City's investment portfolio is delegated to the Finance Director by the City Manager. The Finance Director will establish and maintain written procedures for the operation of the cash management and investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director.
3. The City Finance Department requires that departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department on a daily basis together with records required to verify the accuracy of such collections. All receipts shall be deposited daily. Departments that are authorized to make bank deposits will promptly submit bank deposit receipts and daily cash reports to the Finance Department to verify the accuracy of collections. Any violation of this section of this policy by any employee of the City may result in disciplinary action.
4. The City may invest funds with depositories having offices located in the corporate limits of the City. If required services are not available with the local depository branch, the City may utilize services from the nearest branch to the corporate city limits. Any financial institution in which the City has funds shall provide such financial data to the Finance Director as may be required by the City to evaluate the financial condition of the institution. Such data may be in the form of audited financial statements or Federal Deposit Insurance Corporation regulatory reports. Any refusal to provide such information to the City may be cause for termination of the banking relationships or contracts with such institution.
5. The City requires full collateralization of all City investments as required in State statute. The City prefers financial institutions participate in the State Treasurer's collateralization pool. The City will allow FDIC coverage to be considered in calculating full collateralization.
6. At this time, the City chooses not to use derivative financial structures in the management of the City's investment portfolio. Prior to any proposed use of derivatives, a written management report detailing the positive and negative consequences of the structures will be presented and adopted by City Council.