

Budgets Establish Policies...

The purpose of strong financial policies is to establish rules, guidelines and direction for developing financial goals and objectives, making financial decisions, reporting the financial status of the organization and managing the organization's funds.

The City's financial policy documents provide guidance to the City Administration to prioritize limited resources within the budget development process and then set accounting and financial standards after a budget is approved and is implemented. These policies include:

- Operating Budget Policy
- Capital Budget Policy
- Fund Balance Policy
- Capital Assets Policy
- Accounting, Audits and Financial Reporting Policy
- Debt Management Policy (revised)
- Investment Policy

These policies are developed through research of best practices relating to financial management of a municipality and are reviewed on an annual basis or as needed. Over the last 12 months, the Debt Management Policy was revised to include additional performance metrics. This was done as part of the City's bond rating process and was looked upon favorably by the bond rating agencies.



City of Brookhaven

DATE OF ISSUE: November 9, 2016

EFFECTIVE DATE: January 1, 2017

SUBJECT: **Operating Budget Policy**

REVISED DATE:

APPROVED: _____
Mayor – City of Brookhaven

PURPOSE

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The “operating budget” is the City’s annual financial operating plan. The annual budget includes the operating departments of the general fund, special revenue fund, enterprise funds and other approved funds that may be established as needed.

BUDGET PREPARATION

The budget encompasses a fiscal year that begins on January 1 and ends on December 31. The budget is prepared by the City Manager and the Finance Director, with the cooperation and input of all City departments, on a basis that is consistent with Generally Accepted Accounting Principles.

ADOPTED BUDGET

A adopted budget shall be prepared annually by the City Manager with participation of all City departments consistent with provisions of the City Charter and State budget laws.

1. The budget shall include 1) revenues; 2) personnel costs including employee benefits, 3) purchased/contracted services, 4) supplies, and 5) capital outlay.
2. The budget review process shall include public hearings. At the time the adopted budget is transmitted to the Mayor and members of the City Council by the City Manager, a copy will be made available for public inspection at City Hall. No earlier than seven (7) days after the adopted budget is transmitted to the City Council and at least seven (7) days in advance of budget adoption, a public hearing will take place to give the public an opportunity to comment on the adopted budget. Notice of the public hearing must be advertised at least seven (7) days in advance of the public hearing.

- a. The adopted budget will be transmitted to members of the City Council for its review with sufficient time given for the City Council to address policy and fiscal issues.
- b. The City Council, prior to the first day of the fiscal year, and in accordance with the dates prescribed in the City's ordinances, will adopt an annual budget at a public meeting.

BUDGET ADOPTION

The budget shall be adopted by the approval of an ordinance that specifies the anticipated revenues by appropriate categories, the adopted expenditure totals for each department, each non-departmental expense, and each fund covered by the budget. The budget shall be adopted at the fund/department level, which is the legal level of budgetary control. The current year's budget may be adjusted to reflect changes in the local economy, changes in priorities or service needs, receipt of unbudgeted revenues and for unanticipated expenditures.

BALANCED BUDGET

The operating budget will be balanced with anticipated revenues, included appropriated unencumbered surplus equal to adopted expenditures. All funds within the budget shall also be balanced.

REVENUES

1. Characteristics

The City shall strive for the following characteristics in its revenue structure:

- a. Simplicity – The City shall strive to maintain a simple revenue structure in order to reduce compliance costs for the taxpayer and/or service recipient.
- b. Equity – The City shall make every effort to maintain equity in its revenue system. The City shall seek to minimize subsidization between entities, funds, service, and customer classes.
- c. Adequacy – The City shall require that a balance in the revenue system be achieved. The revenue structure's base shall have the characteristics of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
- d. Administration – The benefits of a revenue source shall exceed the cost of levying and collecting that revenue. The price of collection shall be reviewed periodically for effectiveness as a part of the indirect cost of service.

- e. Diversification and Stability – The City shall maintain a diversified and stable revenue structure to shelter it from short-term fluctuations in any single revenue source. The revenue mix shall combine elastic and inelastic revenue sources to minimize the effect of economic downturns.
- f. Conservative Estimates – Revenues will be estimated realistically and prudently. Revenues of a volatile nature will be estimated conservatively. Conservative revenue estimates based on prior year collections may be used for revenue projections.

2. Issues

The following considerations and issues will guide the City in its revenue policies concerning specific sources of funds:

- a. Non-Recurring Revenues – One-time or non-recurring revenues shall not be used to finance current, on-going operations. Non-recurring revenues should be used only for non-recurring expenditures and will not be used for budget-balancing purposes.
- b. User-Based Fees and Service Charges – For services associated with a user fee or charge, the direct and indirect costs of that service shall be offset by a fee where possible. There will be an annual review of fees and charges to ensure that the fees provide adequate coverage of cost. The City Council shall set schedules of fees and charges.
- c. Intergovernmental Revenues (Federal/State/Local) – These revenue sources will be expended only for the intended purpose of the grant or aid. It must be clearly understood that operational requirements set up as a result of a grant or aid could be discontinued once the term and conditions of the project have terminated.
- d. Revenue Monitoring – Revenues received shall be compared to budgeted revenues. Significant variances will be investigated by the Finance Director.

PLANNING

All departments will be given an opportunity to participate in the budget process and submit funding requests to the Finance Director for approval by the City Manager.

REPORTING

Periodic financial reports will be prepared and distributed to the City Manager and Department heads. These reports allow Department heads to manage their budgets and enable the City Manager to monitor and control the budget. Summary financial and budgetary reports shall be presented by the City Clerk to the Mayor and City Council monthly, as well as being posted on

the City's website for public access.

CONTROL AND ACCOUNTABILITY

Each Department head is responsible for ensuring that his/her department expenditures do not exceed budgeted funds. Departments cannot exceed appropriations described in the budget. Failure to achieve budgetary control will be evaluated and investigated by the City Manager.

BUDGET TRANSFERS

Contingent upon remaining within the confines of the total department budget, each Department head has the authority to recommend budget transfers to the City Manager. Funds within departmental budget line items can be transferred upon the recommendation of the Department head and with approval of the City Manager.



City of Brookhaven

DATE OF ISSUE: November 9, 2016

EFFECTIVE DATE: January 1, 2017

SUBJECT: **Capital Budget Policy**

REVISED DATE:

APPROVED: _____

Mayor – City of Brookhaven

SCOPE

A capital projects plan will be developed and updated annually by the City Manager with cooperation and input from the Department heads. A five-year Capital Improvement Program will assist in the planning, acquisition, and financing of capital projects. A major capital project is generally defined as a non-recurring capital expenditure that has an expected useful life of more than five (5) years and an estimated total cost of \$25,000 or more. Examples include infrastructure, streetscapes, vehicles, heavy equipment and expansion of facilities.

CONTROL

All capital expenditures must be approved as part of each department budget or in the Capital Improvement Fund, if available. Before committing to a capital improvement project, the City Manager or his/her designee must verify fund availability.

PROGRAM PLANNING

The capital budget provides annual funding for long-term capital projects identified in the Capital Improvement Program (CIP). During the annual budget process, each department submits its budget request including operating and capital needs. Upon review of the requests, major capital projects are placed in the capital improvements fund, if available. Other capital outlay is placed in the department's operating budget. Capital outlay is generally defined as an individual item in excess of \$5,000 with a life expectancy of more than two (2) years but less than ten (10) years. Citywide capital improvements are assessed and prioritized based on the City's objectives and goals.

TIMING

At the beginning of the fiscal year, the City Manager or his/her designee will work with Department heads to schedule the appropriate timing of capital purchases to ensure the availability of funds.

REPORTING

Periodic financial reports will be provided to enable the City Manager to monitor and control the capital budget and to enable the Department heads to manage their capital budgets.

City of Brookhaven

DATE OF ISSUE: November 9, 2016

EFFECTIVE DATE: January 1, 2017

SUBJECT: **Fund Balance Policy**

REVISED DATE:

APPROVED: _____
Mayor – City of Brookhaven

PURPOSE

The following policy has been adopted by the City of Brookhaven in order to address the implications of Governmental Accounting Standards Board (“GASB”) Statement No. 54, Fund Balance Reporting and Governmental Fund Definitions. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. This policy will ensure that the City maintains adequate fund balances and reserves in order to:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant economic downturns or revenue shortfalls,
4. Provide funding for unforeseen expenditures related to emergencies and,
5. Provide funding for other commitments made by the City Council.

This policy and the procedures promulgated under it supersede all previous regulations regarding the City’s fund balance and reserve policies.

FUND DEFINITIONS

The following definitions will be used in reporting activity in governmental funds across the City. The City may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- **General fund** - is used to account for all financial resources not accounted for and reported in another fund.
- **Special revenue fund** - is used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

- **Debt service fund** - is used to account for all financial resources restricted, committed or assigned for the expenditure of principal, interest and issuance of debt.
- **Capital projects fund** - is used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- **Permanent fund** - is used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes.

REPORTING CATEGORIES

Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

NONSPENDABLE FUND BALANCE

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The City will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the City) Example of which would include funds such as the Economic Development Authority Fund.
- The City will maintain a fund balance equal to the value of inventory balances, prepaid items and other non-cash items (to the extent that such balances are not offset with liabilities and actually result in fund balance). Examples of this area include office supply inventory.
- The City will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact. Example of this would be a one-for-one accounting of the principal for an endowment given to the City in which only the interest earning can be used for operation.
- The City will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale. Example of this would include the purchase of land with the expectation of selling it on a future date for development.

RESTRICTED FUND BALANCE

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

COMMITTED FUND BALANCE

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the City Council. A majority vote is required to approve a commitment and a unanimous vote is required to remove a commitment.

ASSIGNED FUND BALANCE

Definition – includes amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The City of Brookhaven delegates to the City Manager or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The City Council must authorize all expenditures from the assigned fund balance.

UNASSIGNED FUND BALANCE

Definition – includes the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City will maintain a diversified and stable revenue system that will equally allocate the burden of supporting all services and protect the City from short-term fluctuations in any one revenue source. The City will forecast revenues on a conservative basis so that actual revenues will consistently meet or exceed budgeted revenues. The City will maintain a minimum unassigned fund balance in its General Fund at twenty-five percent (25%) of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

REPLENISHMENT OF RESERVE DEFICITS

If, at the end of any fiscal year, the actual amount of unassigned fund balance falls below the minimum required fund balance level set forth herein, the City Manager shall prepare and submit a plan for expenditure or expense reduction and/or revenue increase to the City Council. As part of the annual budget review, the City Council shall review and, if necessary, amend the plan submitted by the City Manager for restoring the amount of unassigned fund balance to the required minimum level.

The City may replenish shortages/deficiencies using the budget strategies and timeframes described below.

- The City will reduce recurring expenditures to eliminate any structural deficit or,
- The City will increase revenue or pursue other funding sources, or,
- Some combination of the two options above.

Minimum fund balance deficiencies shall be replenished within the following time periods:

- Deficiency resulting in a minimum fund balance between 22.5% and 25% shall be replenished over a period not to exceed one year.
- Deficiency resulting in a minimum fund balance between 20% and 22.5% shall be replenished over a period not to exceed three years.
- Deficiency resulting in a minimum fund balance of less than 20% shall be replenished over a period not to exceed five years.

UTILIZATION OF SURPLUS RESERVES

In the event that the unassigned fund balance exceeds the amounts set forth above, the excess may be utilized for any lawful purpose of the City. It may also be used for one-time costs including the establishment of, or increase in, restrictions or commitments of fund balance.

ANNUAL REVIEW AND DETERMINATION OF RESERVE AMOUNTS

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process, and the amounts of restricted, committed and unassigned fund balance shall be determined as part of the annual process.

City of Brookhaven

DATE OF ISSUE: November 9, 2016

EFFECTIVE DATE: January 1, 2017

SUBJECT: **Capital Asset Policy**

REVISED DATE:

APPROVED: _____
Mayor – City of Brookhaven

PURPOSE

The City of Brookhaven has established guidelines and procedures to appropriately account for and classify eligible capital asset property in accordance with Generally Accepted Accounting Principles (GAAP)

A capital asset must meet all of the following requirements:

1. The asset is tangible or intangible and ready for its intended use.
2. The asset is used in the operation of the City's activities.
3. The asset has a useful life greater than one fiscal year.
4. The asset is of significant value.

Capital assets may be acquired through donation, purchase, capital lease or self-constructed. Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase. On the City-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Costs for self-constructed assets may include legal and title fees, closing costs, fees, land costs, demolition costs, relocation costs, architect and accounting fees, and insurance premiums and interest costs during construction. Donated capital assets are recorded at fair market value on the date donated.

The City's assets are classified into four major classes of assets as defined by GAAP. They are land, buildings and improvements, equipment, and intangible assets. The following capitalization thresholds and estimated useful life for depreciation will be used for the different classes of the City's capital assets reported in the City-wide statements:

	<u>General Policy</u>	<u>Useful Life</u>
Land	All	N/A
Buildings and Improvements	All	20 to 50 Years
Equipment	\$5,000	5 to 10 Years
Intangible Assets	\$1,000,000	10 Years

LAND

Land acquired by purchase is recorded at cost to include amount paid for the land and all incidental costs. Incidental costs may include, but not be limited to, land preparation cost, land excavation, and grading.

Land acquired by gift or bequest is recorded at the fair market value at the date of the acquisition if appraisal is available. If no appraisal is available, the fair value used will be the amount the person or entity paid before it was gifted to the City.

Land acquired with buildings erected thereon, total cost is allocated between the two in reasonable proportion at the date of acquisition. Land is not a depreciable asset but is capitalized regardless of cost.

BUILDINGS AND IMPROVEMENTS

Buildings will be recorded at either their acquisition cost or construction cost. If purchased, the capitalized cost should include the purchase price and other incidental expenses at the time of acquisition.

If a building is constructed, the capitalized cost should include all construction costs and capitalized upon completion of the project when it is deemed ready for its intended use or when certificate of occupancy is received. All major component units such as HVAC, kitchen equipment, plumbing system, sprinkler systems, etc. are included in the cost of the building when the building is originally constructed.

Costs to furnish the building such as furniture and equipment will not be included in the building's capitalized cost.

Building or site improvements are defined as the extension to a pre-existing building. This also includes any major renovations or alterations with an existing building. Site improvements may include items such as site work, sewer systems, parking lots, outdoor lighting, covered walkways, tennis courts, running tracks, grandstands, athletic fields, etc. The costs of the addition will be recorded at their construction cost. Building or site improvements will be capitalized separately and depreciated over their useful life. Site improvements are designed as depreciable or non-depreciable. The non-depreciable improvements (such as drainage improvements and wetlands mitigation) are treated like land and capitalized but not depreciated.

Component units such as HVAC, kitchen equipment, plumbing system, sprinkler systems, etc. that were originally included in the construction cost of the building will not be removed from the property report since it is not a separately valued component. The new component unit will be depreciated over the estimated useful life of the applicable class of property.

CONSTRUCTION IN PROGRESS

This includes all construction project expenses and allocations for building and site improvement construction not completed or ready for intended use by the end of the fiscal year. Construction in Progress is not depreciable. Completed projects will be moved to the applicable fixed asset class when complete.

EQUIPMENT

Equipment costing \$5,000 or more per item and having an estimated life of more than one year will be capitalized. Expenditures for items such as furniture and computer equipment purchased in groups costing more than \$5,000 and having an estimated life of more than one year may be capitalized by type as a group. Equipment will be depreciated over its estimated useful life.

INTANGIBLE ASSETS

Per Governmental Accounting Standard Board (GASB) Statement 51, an intangible asset possesses all of the following: (1) Lack of physical substance, (2) nonfinancial nature, and (3) initial useful life extending beyond a single reporting period. Internally developed computer software is the most common type of intangible asset the City may have. In order to be classified as internally developed software the software must be created or produced by the government or an entity contracted by the government or commercially available software that is purchased or licensed and is modified using more than minimal effort.

Only the costs of the internally developed computer software associated with the application development stage are capitalized. These costs include design, coding, installation to hardware, data conversion, and testing. All other costs associated with internally developed software are expensed in the year they are incurred. The capitalization threshold for this type of software is \$1,000,000. Depreciation of this type of asset will begin when the software system is put into service. Until the system is put into service, the City will show the cost in construction in progress.

LEASED ASSETS

Operating leases will be capitalized if one or more of the following criteria are met and chance of cancelation is low:

- Ownership is transferred by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is greater than or equal to 75 percent of the asset's service life.

- The present value of the minimum lease payment is greater than or equal to ninety percent (90%) of the fair market value of the asset at the inception of the lease.

DONATED ASSETS

Assets that have been donated to the City are valued at their estimated fair value at the time of donation. If the donated asset is land or a building, the estimated fair value should be the amount listed on an appraisal. If no appraisal is available, the fair value used should be the amount the person or entity paid for the property before it was donated. The value of all other donated assets should be provided by the donor.

SALE OF CAPITAL ASSETS

The sale of a capital asset must be to the highest, responsible bidder and must be conducted by sealed bid or by auction. The sale must be approved and publicized in accordance with State law.

DISPOSAL OF ASSETS

Disposal of assets are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. Depreciation is calculated based on the month the asset is placed into service or substantially completed. Depreciation expense is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives. The asset record, including disposal information, will remain on the master file for three (3) fiscal years, after which time it is purged from the system in accordance with GAAP.

A disposal action is appropriate when certain conditions occur resulting in an asset no longer being in the possession of the City. Assets no longer in use which remain in the possession of the department are considered surplus property and not a disposal.

Capital assets may be disposed of in any one of six (6) ways:

1. Sale or trade-in;
2. Abandonment/retirement;
3. Lost or stolen;
4. Transfer;
5. Cannibalization (taking parts for other uses); and,
6. Casualty loss

Only when the asset is no longer in possession of the City, due to one of the reasons above, is disposal action appropriate.

Assets are “abandoned” or “retired” when there is no longer any use for them in the Department, they are of no use to any other City department, or they cannot be repaired, transferred, cannibalized, sold or traded in.

Stolen items must be reported to the Brookhaven Police Department and a report filed. A copy of this report must accompany the disposal record.

Casualty losses must be documented within 24 hours of loss and reported to the City Manager immediately.

Departmental management is responsible for reviewing disposal reports, evaluating causes and trends leading to disposals, and effectively managing and controlling disposals in which they are responsible.

IMPAIRMENT OF ASSETS

GASB Statement 42 establishes accounting and financial reporting standards for a capital asset that has experienced a significant unexpected decline in its service utility. The City shall evaluate annually prominent events or changes in circumstances affecting assets to determine whether an impairment of a capital asset has occurred. In order to meet the impairment, test a decline in service utility must be both:

- Significant
- Unexpected

INVENTORY OF CAPITAL ASSETS

An inventory of capital assets will be conducted under the supervision of the finance director annually and reported in the CAFR.



City of Brookhaven

DATE OF ISSUE: November 9, 2016

EFFECTIVE DATE: January 1, 2017

SUBJECT: **Accounting, Audits and Financial Reporting Policy**

REVISED DATE:

APPROVED: _____
Mayor – City of Brookhaven

PURPOSE.

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.

ACCOUNTING AND RECORDS REPORTING

The City will maintain its accounting records in accordance with state and federal laws and regulations and in a manner to facilitate an efficient audit process. The City will report its financial condition and results of operations in accordance with state regulations and Generally Accepted Accounting Principles (GAAP) described in the Government Finance Officers Association publication “Governmental Accounting, Auditing, and Financial Reporting” (GAAFR). The City’s accounts shall be kept in such a manner as to show fully the financial conditions of the City. The City will maintain a Chart of Accounts that complies with State of Georgia requirements and is in accordance with GAAP.

AUDITING

An independent auditor or auditing firm will annually perform the City’s financial audit. The auditor must be a Certified Public Accountant (CPA) that can demonstrate that s/he has the capability to conduct the City’s audit in accordance with Generally Accepted Auditing Standards (GAAS). A copy of the audit will be sent to the State Auditor who will respond with comments regarding compliance. Results of the annual audit shall be provided to the City Council in a timely manner.

SIMPLIFIED FUND STRUCTURE

The City will attempt to minimize the number of funds. Funds will be categorized in accordance with GAAP for reporting purposes.

FINANCIAL REPORTING

Internal financial reports will be prepared by the City's Finance Director that are sufficient to plan, monitor and control the City's financial affairs. Monthly accounting reports are meant to transmit information regarding the financial situation of the City. These regular reports are made available to the City Council, City Manager, Department heads and other staff and citizens as necessary.

City of Brookhaven

DATE OF ISSUE: November 9, 2016

EFFECTIVE DATE: January 1, 2017

SUBJECT: **Debt Management Policy**

REVISED DATE: June 28, 2018

APPROVED: _____
Mayor – City of Brookhaven

PURPOSE

The purpose of the Debt Management Policy is to set forth the parameters for issuing debt and managing outstanding debt and to comply with all applicable federal and state laws, rules and regulations related to the issuance of tax-exempt debt (the “Debt”).

The intent is to provide structure for decisions regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used, and structural features that may be incorporated. Should the City pursue variable rate debt and enter into agreements related to the management of the interest rate, the City will follow the parameters of the agreements (security and payment provisions, risk assessment and methods for monitoring these risks) outlined in an Interest Rate Management Plan that will be developed before entering into any such arrangement.

When the City issues debt, there are on-going responsibilities related to federal tax law (with respect to tax-exempt securities) and securities laws (with respect to ongoing disclosure) or as a result of contractual commitments made by the City. A Post Issuance Compliance Plan is intended to guide the City in meeting its obligations under applicable statutes, regulations and documentation associated with publicly offered and privately placed securities.

SCOPE

This policy (the “Policy”) applies to all Debt issued by or for the benefit of the City of Brookhaven, Georgia (the “City”) and its related entities.

POLICY

The City shall comply with all federal and state laws, rules and regulations related to the issuance of Debt.

RESPONSIBILITY

The City Manager shall be administratively responsible for the Policy. The City Manager shall be responsible for reviewing the requirements and responsibilities of the City under the Policy with bond counsel on or before the closing date of any Debt issued by the City.

DISSEMINATION AND TRAINING

The Policy shall be disseminated to all relevant personnel in the City and to the auditor. The City Manager shall provide appropriate training to all personnel directly involved in the administration of tax-exempt debt to ensure they comply with the provisions of the Policy. The City Manager shall consult as appropriate with qualified attorneys with respect to the content of such training.

REVIEW

The Policy shall be reviewed and revised annually by the City Manager and redistributed to all relevant personnel in the City and to the auditor.

The City Manager shall annually conduct a due diligence review of all Debt currently outstanding to ensure proper compliance with each of the provisions of the Policy. If the City Manager discovers non-compliance with any provisions of the Policy, steps necessary to correct the noncompliance will be taken within ten (10) business days of the conclusion of the annual due diligence review. Records of all corrective action taken shall be retained in accordance with the Policy.

GENERAL OBLIGATION BONDS

General Obligation bonds can be considered as a financing source by the City when the service provided is essential to the City government, there is no clear underlying revenue stream, or the project cannot be completed from current revenue sources or it is more equitable to finance the project over its useful life.

GENERAL OBLIGATION DEBT

General Obligation Debt, as defined by Georgia Law, is backed by the full-faith and credit and taxing power of the City and requires voter approval unless the purpose is to refund outstanding general obligation bonds to achieve debt service savings.

Another type of General Obligation bonds is Sales Tax General Obligation Bonds when a question concerning general obligation debt is placed on the ballot for a sales tax program (i.e. Special Purpose Local Option Sales Tax – SPLOST). This policy allows the City to place a general obligation debt question on the ballot for sales tax for capital projects. This type of general obligation debt is payable first from sales tax and then from general funds of the issuer, if sales tax is not sufficient.

SPECIAL DISTRICT DEBT

The City may incur debt on behalf of any special district created pursuant to the Georgia Constitution. Such debt may be incurred only after the City has provided for the assessment and collection of an annual tax within the special district sufficient in amount to pay the principal and interest on such debt and has received the assent of a majority of the voters of the special district voting on the issue. The proceeds of this tax shall be placed in a sinking fund to be held on behalf of such special district and to be used exclusively to pay off the principal and interest on such debt.

REVENUE BONDS

Revenue bonds can be considered as a financing source by the City when: 1) the service provided is essential to the City government and has a strong underlying revenue stream; 2) the service provided is non-essential to the City government but has a moderate underlying revenue stream; or 3) the project cannot be completed from current revenue sources or it is more equitable to finance the project over its useful life.

PENSION OBLIGATION BONDS

Should the City contemplate the issuance of pension obligation bonds, an independent financial advisor should provide analysis addressing risk to the Chief Financial Officer. Experiences of other jurisdictions as well as the matching of pension obligation bonds against the maturities of assets should be included in the analysis. At time of this policy this section is not applicable since the City does not have a defined benefit pension plan.

REDEVELOPMENT AND DEBT

Self-taxing arrangements are the preferred funding method for infrastructure within a Community Improvement District or a Tax Allocation District. Tax Increment Financing (TIF) in conjunction with such an entity and self-tax arrangements may be utilized as a funding mechanism if it is authorized and demonstrated that a sufficient rate of return to encourage private or public investment is not otherwise available to the developer.

AUTHORITY DEBT AND CONDUIT FINANCING

Authorities which are registered with the Georgia Department of Community Affairs can incur debt or credit obligations. Similarly, the City has established several authorities which have the authority to issue debt. From time to time, the City Council may consider the approval of bond documents from authorities (such as the Metropolitan Atlanta Rapid Transit Authority or the City of Brookhaven Economic Development Authority) or other entities. The consideration of such bonds does not represent a financial commitment of the City so long as the City's full faith and credit is not provided as security for the Bonds. If the full faith and credit is not provided as security, the debt capacity/limitations ratios are not included in the City's measures of debt

capacity and affordability. According to Georgia law, bonds, obligations, and other indebtedness incurred by development authorities do not constitute an indebtedness or obligation of the State, County or City. Unless otherwise specified within a lease or intergovernmental agreement, authority debt is not considered a financial commitment of the City.

SHORT-TERM AND OTHER BORROWING

Interim debt may be utilized for temporary funding of operational cash flow deficits pending receipt of anticipated revenues, or construction financing needs. Such borrowing must be in compliance with state law and in the form of line-of credit, tax anticipation notes, internal borrowings, commercial paper, or construction loan notes. Repayment will occur over a period not to exceed the useful life of the underlying asset.

DEBT CAPACITY/LIMITATIONS

Management will consider the following when making the decision to issue debt: legal debt margin, debt service in Governmental funds as a percentage of Operating Expenditures in Governmental funds, debt burden (overall net debt as a percentage of full valuation, and the ten-year payout ratio).

- Direct Net Debt including SPLOST debt outstanding will not exceed 1.75% of the full value of all taxable property within the City.
- Tax supported debt service, exclusive of SPLOST supported debt service, will not exceed 15% of General Fund expenditures and transfers.

REFINANCING OF OUTSTANDING DEBT

The City may contract with a Financial Advisor to monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debts. In adherence with federal tax law constraints, refunding will be considered if and when there is a net economic benefit of the refunding, the refunding is essential in order to modernize covenants or other commitments essential to operations and management, or to restructure payment schedules to optimize payments with anticipated revenue streams.

DEBT STRUCTURE

City debt will be amortized for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users, or to match the useful life of the project, and in keeping with other related provisions of this policy. The City will show a preference for the use of level debt service payments, unless specific compelling reasons exist to structure the debt otherwise. Credit enhancement (letters of credit, liquidity provider, bond insurance, etc.) may be used if the present value reduction of debt service costs achieved by their use outweighs the initial cost of

the enhancement or when they provide other significant financial benefits or appropriate risk reduction to the City.

In cases where the City desires to capitalize interest, interest shall only be capitalized for the construction period of a revenue-producing project. Only under extraordinary circumstances will interest be capitalized for a period exceeding the construction period.

Call provisions for bond issues shall serve the primary interests of providing financial flexibility. Call provisions shall be set in a manner that is as short as possible while achieving the lowest interest cost to the City.

To the extent permitted by law, the City may form or enter into associations/agreements for joint issuance of debt. The purpose of such arrangements must be to share issuance costs, obtain better terms or rates, or to advance other fiscal goals. Only per contractual agreement or as permitted by law shall the City assume liability through any joint program for the debt obligations or tax consequences related to another government or organization's debt program.

Based on the situational or project specific reasons, the use of variable rate debt will be utilized in a limited way to the extent that it presents a significant interest savings to the City and does not subject the City to:

1. excessive risk of unfavorable changes in interest rates
2. pressure on the City's credit rating
3. unexpected budgetary pressures
4. excessive debt service acceleration risk or the potential for balloon indebtedness in the event market access is restricted to the City
5. the inability to repay variable rate obligations as they come due
6. escalating payments

No derivative products will be utilized unless permitted by law or without prior authorization of the City Council. No derivative products shall be utilized without an analysis by an independent financial advisor and the implementation of an independent monitoring program. As a method of annually assessing the level of risk with any variable rate bonds, an Interest Rate Management Plan will be developed and used to identify the risks associated with such variable rate debt.

FINANCING TEAM SELECTION PROCESS

The City may employ outside financial specialists to assist in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key participants in the City's financing transactions may include a Financial Advisor, Bond Counsel, Disclosure Counsel, the Underwriter (in a negotiated sale), and City representatives. Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, auditing, or printing services, are retained as required.

The objectives of the selection process are participation from qualified providers, ensuring service excellence, and competitive cost structure. Unless exemptions apply, the City's Purchasing Policy governs the selection of professional service providers.

The City may solicit proposals for financial advisory service. The City will rebid for a financial advisor every five (5) years. The City may retain multiple advisors based on the specific experience needed funding a project. A selection committee appointed by the Chief Financial Officer (CFO) shall review financial advisory service proposals. After the selection committee has ranked the proposals they shall be submitted to the Mayor and City Council for final approval.

The City may use a Financial Advisor to solicit proposals for underwriting service for debt issued in private placement or negotiated sale. A committee appointed by the CFO shall review the recommendation of the Financial Advisor (if applicable) of the underwriting proposals and will recommend an underwriting firm to the Mayor and City Council for final approval. With either a private placement or a negotiated sale, the underwriter must disclose any potential conflicts of interest.

In cooperation with the City Attorney, the City may solicit proposals for bond counsel service. A selection committee appointed by the CFO shall review bond counsel service proposals. After the selection committee has ranked the proposals they shall be submitted to the Mayor and City Council for final approval.

The City may solicit proposals for disclosure counsel service. A selection committee appointed by the CFO shall review disclosure counsel service proposals. After the selection committee has ranked the proposals they shall be submitted to the Mayor and City Council for final approval. The City shall procure professional services for record keeping, banking services, or other debt administration specialists in compliance with the Purchasing Policy.

METHOD OF SALE

The City will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions. Based on information provided by the Financial Advisor (if applicable), the CFO is authorized to determine the most advantageous process for the marketing and placement of the City's debt. Methods of sale include, but are not limited to, competitive sales, negotiated sales, private placement, direct bank placement and lease/purchase agreements.

RECORD KEEPING

All records relating to the Debt needed to comply with Section 6001 of the Internal Revenue Code of 1986, as amended (the "Code") shall be maintained. These records shall be kept in paper or electronic form and shall include, among other things, (i) basic records relating to the transaction (including the bond documents, the opinion of bond counsel, etc.), (ii) documents evidencing the expenditure of the proceeds of the Debt, (iii) documentation evidencing the use of Debt-financed

property by public and private entities (e.g., copies of management contracts, leases and research agreements) and (iv) documentation pertaining to any investment of Debt proceeds (including the purchase and sale of securities, SLG subscriptions, yield calculations for each class of investments, actual investment income received from the investment of the proceeds of the Debt, guaranteed investment contracts and rebate calculations. Such records must be maintained as long as the Debt is outstanding, plus three years after the final payment or redemption date of the respective Debt.

USE OF PROCEEDS

A list of all property financed with the proceeds of the Debt shall be created and maintained. The use of such property shall be monitored to ensure that such use does not constitute “private business use” within the meaning of the Code. Without limiting the foregoing, each contract, including but not limited to management contracts and leases, relating to such property shall be reviewed by legal counsel prior to the execution of such contract. The list of property shall be reviewed at least annually to ensure that none of the property has been sold.

REMEDIAL ACTION

In the event that property financed with the proceeds of the Debt is used in a manner that constitutes “private business use” or the property is sold, the remediation provisions of Treasury Regulation § 1.141-12 shall be carried out in consultation with bond counsel.

YIELD RESTRICTION

If bond counsel advises that a fund or account needs to be yield restricted (*i.e.*, not invested at a yield in excess of the Debt), the moneys on deposit in such fund or account shall be invested in United States Treasury Obligations – State and Local Government Series, appropriate “yield reduction payments” shall be made if permitted by the Code or the CFO shall establish other procedures to ensure that such fund or account is yield restricted.

REBATE

At the time the Debt is issued, the CFO shall determine if he or she reasonably expects that one of the arbitrage rebate exceptions will be satisfied. If the arbitrage rebate exception relates to the time period over which the proceeds of the Debt are spent, the CFO shall verify that the appropriate expenditures have been made at each milestone. If one of the milestones is not satisfied or the CFO does not reasonably expect that one of the arbitrage rebate exceptions will be satisfied, an outside arbitrage rebate consultant shall be retained unless the CFO has determined that positive arbitrage will not be earned.

CONTINUING DISCLOSURE

The City shall record and comply with any continuing disclosure undertaking entered into with respect to Debt. The CFO shall catalogue and determine any continuing disclosure undertaking entered into by the City prior to the imposition of the Policy to ensure that its continuing disclosure obligations will be updated and satisfied going forward.

The CFO will implement appropriate procedures to ensure that annually recurring disclosure obligations are timely fulfilled. Upon the occurrence of an event requiring the filing of an events notice under any continuing disclosure obligation, the CFO will ensure such event notice is filed within ten (10) business days of the occurrence of such event.



City of Brookhaven

DATE OF ISSUE: November 9, 2016

EFFECTIVE DATE: January 1, 2017

SUBJECT: **Investment Policy**

REVISED DATE:

APPROVED: _____
Mayor – City of Brookhaven

PURPOSE

This investment policy applies to all funds under the City of Brookhaven's control.

OBJECTIVES

The following investment objectives shall be met with this policy:

- a. **Safety** – Preservation of principal shall always be the foremost objective in any investment transaction involving City funds. Those investing funds on the City's behalf must first ensure that capital losses are avoided by limiting credit and interest rate risk. Credit risk is the risk of loss due to the failure of the security issues or backer. Interest rate risk is the risk that market value portfolios will fall due to an increase in general interest rates.
- b. **Liquidity** – The second objective shall be the maintenance of sufficient liquidity within the investment portfolio. The City's investment portfolio shall be structured such that securities mature at the time when cash is needed to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio should maintain some securities with active secondary or resale markets.
- c. **Return on Investment** – The third objective shall be the realization of competitive investment rates, relative to the risk being assumed. However, yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above.

DELEGATION OF AUTHORITY

The overall management of the investment program is the responsibility of the Chief Financial Officer. Responsibility for the daily investment activities is assigned to the City's Finance Director. Responsibilities to fulfill this authority include: opening accounts with banks, brokers and dealers; arranging for safekeeping of securities and executing necessary documents. A system of internal controls over investments is reviewed by the City's independent auditors. The controls are designed to prevent losses of public funds arising from fraud, error, misrepresentation by third parties, unanticipated changes in financial markets, and/or imprudent action by staff and City officials.

AUTHORIZED INVESTMENTS

All investment activity is required to be in compliance with Chapter 83 of Title 36 of the Official Code of Georgia, which establishes guidelines for local government investment procedures. The City of Brookhaven may invest funds subject to its control and jurisdiction in only such investment instruments permitted by State of Georgia law for local governments, including the following:

- a. Certificates of Deposit (CDs) issued by banks insured by the Federal Deposit Insurance Corporation (FDIC). Deposits in excess of FDIC coverage must be collateralized by securities with a market value equal to at least 110% of the deposit. Only those securities described in Georgia Code 50-17-59 can be pledged as collateral;
- b. Obligations issues by the United States government;
- c. Obligations fully insured or guaranteed by the United States government or a United States government agency;
- d. Obligation of the State of Georgia or of other states;
- e. Obligation of other political subdivision of the State of Georgia;
- f. Georgia Fund 1, the local government investment pool of the State of Georgia managed by the State Treasurer. (Formerly known as the "LGIP")

PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Under the "prudent person" standard, 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 probably safety of their capital as well as the probable revenue to be gained.

The Chief Financial Officer and all designees acting in accordance with 1) written procedures, 2) this investment policy, and 3) 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 appropriate action is taken to control adverse development.

MATURITIES

To achieve the aforementioned objective of adequate liquidity within the City's portfolio, the City shall attempt to match investment maturities with anticipated cash flow requirements. Unless matched to a specific cash flow, the maximum maturity of any instrument in the City's portfolio may not exceed two years from the date of acquisition by the City. In order to preserve liquidity and to lessen market risk, not more than 25% of the total portfolio may mature more than one year beyond the date of calculation. The maturity on non-negotiable time deposits may not exceed one year.

SAFEKEEPING AND CUSTODY

All investment securities purchased by the City of Brookhaven shall be delivered against payment and shall be held in a third-party safekeeping account by the trust department of a bank insured by the FDIC. The Chief Financial Officer, or designee, shall be responsible for the selection of a financial institution for this purpose, as well as the execution of a written safekeeping agreement with the trustee.

ETHICS AND CONFLICTS OF INTEREST

City employees involved in the investment process will refrain from personal business activity that would conflict with proper execution of the investment program, or which would impair their ability to make impartial investment decisions. Employees and investment officials will disclose to the Chief Financial Officer any material financial interests in financial institutions that conduct business with the City, and they will further disclose any large personal financial/investment positions that would be related to the performance of the City's portfolio. Employees and investment officials will subordinate their personal investment transactions to those of the City particularly with regard to the time of purchases and sales.

PERFORMANCE EVALUATION

The Chief Financial Officer, or designee, will seek to achieve a market average rate of return on the City's portfolio. Given the special safety and liquidity needs of the City, the basis used to determine whether market yields are being achieved shall be the six-month Treasury Bill.

