LEGISLATIVE, FINANCE AND ADMINISTRATION COMMITTEE

The Legislative, Finance, and Administration Committee meeting was held on September 28, 2015, at 6:00 p.m. with Chairman Hare presiding. Members present were Mr. Cole, Mr. Sudler, Ms. Maucher, and Mr. Shevock. Members of Council present were Mr. Anderson (arrived at 6:23 p.m.), Mr. Hosfelt (arrived at 6:10 p.m.), Mr. Hutchison, and Mr. Slavin.

AGENDA ADDITIONS/DELETIONS

Mr. Sudler moved for approval of the agenda, seconded by Mr. Cole and unanimously carried.

Project Carry-Forward Budget Balances/Proposed Budget Amendments

Mrs. Donna Mitchell, Controller/Treasurer, advised members that the proposed budget amendment would incorporate into the FY2016 Capital Investment Plan the adjustments to the Beginning Budget Balances for all Capital Project Funds and project balances for uncompleted or multi-year projects. It also included any adjustments related to Council actions to date on changes in project budgets that were not included in the original budget.

Members were provided a handout entitled "Late FY15 Accruals" ***(Attachment #1)***. Mrs. Mitchell advised members that the auditors brought it to staff's attention that some invoices that were received last week for FY15 projects, listed in Exhibit A to the Fiscal Year 2015/2016 Budget - First Amendment - Capital Investment Plan Amendments, had not been accrued. She indicated that this changed the results of the audit and staff had to change the financial statements. Mrs. Mitchell explained that the carry forwards that staff had provided would be changed to show the projects listed on the handout and these changes would be reflected in the proposed budget ordinance.

Staff recommended approval of the proposed budget amendments for Fiscal Year 2016.

Mr. Sudler moved to recommend approval of the proposed budget amendments for Fiscal Year 2016 *(Attachment #2)*, seconded by Mr. Cole and unanimously carried.

Status of OPEB (Other Post Employment Benefits) and Pension Funds

Mrs. Donna Mitchell, Controller/Treasurer, reviewed a presentation entitled, "City of Dover Actuarial Valuations as of July 1, 2014 for Fiscal Year Ending June 30, 2015." In reference to Page 2, City Police Pension Plan, Mrs. Mitchell explained that the Funded Ratio of the plan increased from 56.0% in FY 2014 to 59.2% in FY 2015. In regard to Page 3, Civilian Pension Plan, she noted that the amortization period of the Unfunded Accrued Liability was decreased from 21 years to 15 years, resulting in an increase to the amortization payment of $409,000. Mrs. Mitchell advised members that she had asked the actuary about this change and was told that they were matching the life of the assets to the life of the beneficiaries, and this period was reduced to 15 years. She noted that the Funded Ratio of the Civilian Plan had improved from 53.7% in FY 2014 to 56.3% in FY 2015.

Referring to Page 5 - Other Post Employment Benefits (OPEB) 10 Year Phase In Funding Plan (2009), Mrs. Mitchell advised members that this fund was started in 2009, as required by the Government Accounting Standards Board (GASB), with a 10-year phase-in. Prior to implementing the phase-in plan, Council had set aside approximately $6M in reserve since they were aware this requirement was coming, which helped with funding the liability. Mrs. Mitchell explained that,

according to the phase-in plan, the City was funding a minimum of 50% of the Annual Required Contribution (ARC) in 2013; however, the City funded over 100% of the ARC in 2014 and 2015. Mrs. Mitchell advised members that, since the ARC was fully funded, this would allow the City to use a 6.5% interest rate assumption in calculating future liability. If the plan were not fully funded, in accordance with GASB, this interest rate would have been bifurcated, with 4.5% being used on the unfunded portion and 6.5% on the funded portion. This would have driven up the liability higher and increased the annual cost. Mrs. Mitchell noted that GASB 68 required that these liabilities be shown on the City's balance sheet starting this fiscal year. She explained that the Electric Fund was fully funding its piece of the liability. Although, the General and Wastewater Funds were not fully funding their pieces, this information is looked at in total when interest rates are determined.

In response to Mr. Hare, Mrs. Mitchell confirmed that there were 48 police retirees/spouses under the Police Pension Plan who were on the employee health plan and a monthly benefit total of $130,815 was being paid to these individuals.

Mr. Hare noted that this was an average of $2,700 per individual and questioned if this was the amount being paid for health care. Responding, Mrs. Mitchell stated that this was the amount being paid for pension benefits.

In reference to Page 6 - OPEB, Mrs. Mitchell advised members that OPEB funding improved from a Funded Ratio of 19.4% in FY2014 to 36.6% in FY2015.

Mrs. Mitchell reviewed a presentation entitled, "Unfunded Liabilities Graphical Representation by Fund." She explained that the most significant changes in the unfunded liabilities related to OPEB.

Mrs. Mitchell reviewed a presentation entitled, "Actuarial Valuations Impact on FY16 and FY17 Budget - Recommendations of Controller/Treasurer - September 24, 2015." She stated that, given the results of the studies, too much money was going into OPEB and not enough into pension in the budget. As a result, Mrs. Mitchell recommended a budget adjustment, noting that she would be bringing this to Council later in the year, along with year-end balances for the audit.

Mrs. Mitchell reviewed the FY16 Budget - Pension and OPEB Analysis - Page 14, indicating that the top portion reflected overfunding in the OPEB fund. She recommended that these funds be reappropriated to the underfunded Civilian Pension Fund. Mrs. Mitchell recommended that the $327,900 included in the General Fund for OPEB go toward General Fund pension and $20,300 from allocated for OPEB go toward Water/Wastewater pension. She recommended reducing the budgeted pension contribution of $1,750,000 in the Electric Fund to the actuary determined contribution of $627,900, which would free up money in this fund which could be considered in discussions regarding rates. Mrs. Mitchell explained that these revisions would be brought back to Council.

In reviewing Page 15 - FY17 Estimated Budget Impact Using FY16 Budgeted Payroll, Mrs. Mitchell advised members that the percent of payroll for the OPEB decreased by 2.2% for the General Fund, by 4.6% for the Water/Wastewater Fund, and by 5.4% for the Electric Fund, resulting in a savings across the board.

Review of Financial Policies

Mrs. Donna Mitchell, Controller/Treasurer, explained that, after going through the budget process, she thought it would be prudent to review the City of Dover financial policies and to look at what actually prompted those policies. She explained that one (1) of the reasons that prompted this change was that some of financial policies were based on a percentage of revenue. For example, the 2% tax increase for the General Fund resulted in an automatic 2% increase in the Contingency Reserve Fund. Mrs. Mitchell stated, rather than having some of the reserves tied to a percentage of revenue which would arbitrarily increase as the budget increases, she changed them to flat dollar amounts that she thought were reasonable and benchmarked funds against each other to see how this would come out. Mrs. Mitchell noted that the Analysis of Reserve Balances as of June 30, 2015 reflected the current budget for the reserve funds and the minimum policy requirements.

Mrs. Mitchell quoted from Revenue Policy #5 - Page 2, which states that "The City will review its incentive programs every three years and provide City Council with the amount of foregone revenues and any recommended changes." She indicated that she did not believe this was currently being completed and was unsure if it was desired to have this type of report. She noted that GASB Statement No. 77, Tax Abatement Disclosures would require this information to be included in the City's Comprehensive Annual Financial Report (CAFR) at the end of each fiscal year, and this would take effect in FY 17. Mrs. Mitchell quoted from the requirements of GASB Statement No. 77, as follows: "A transaction's substance, not it's form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purposes of this Statement." She stated that staff would have to get some determination on what should be included and start gathering that information for that fiscal year and expressed her desire to get the Committee's thoughts on whether to include this to Council separately or as part of the CAFR.

In response to Mr. Hare regarding her recommendation, Mrs. Mitchell stated her feeling that it was not necessary to include this in the financial policies since it had to be gathered and included in the CAFR.

In reference to Expenditure Policy #1 - Page 3, which states that "The City will establish performance measurements for all program areas, when feasible. These measures will reflect the demand, workload capability, and projected outcomes for the program to accomplish its objectives," Mrs. Mitchell indicated that she did not know that there were currently valid performance measures by program and if they were being reported. Mrs. Mitchell stated that including these goals and objectives in the budget was required when the City was participating in the Government Finance Officers Association Excellence Award Program and there were performance measures based on how those goals were met. Due to staffing changes that were made, the lack of a full-time employee to work on the budget, and the overwhelming size of the budget document, staff had stopped doing these things and this was no longer included in the budget. Mrs. Mitchell's recommendation was to removed this from the Financial Policies, unless Council felt strongly that they would like to see this information, possibly in some other format.

In response to Mr. Cole as to whether this information was provided in another format, Mrs. Mitchell stated that some performance measures are reported in the City Manager's report or in departmental reports, but they do not necessarily tie back to the budget document anymore. She noted that at one

point there was a push for performance measurement across the organization and some of it fed back into the pay-for-performance system. Mrs. Mitchell stated that this is now minimized in most documents.

In regard to the Budget Balance/Reserve Policy - General Fund Policy #3 - Page 5, Mrs. Mitchell explained that, as mentioned previously, the contingency reserve minimum was changed from 2% of the current year operating revenues for the General Fund to at least $700,000. She stated that the current reserve was a little over $700,000, based on 2% of the prior year's budget. She noted that this figure would have been higher based on the current year's budget.

Budget Balance/Reserve Policy - General Fund Policy #5, relating to the Capital Asset Replacement account for Governmental Fund asset procurements, Mrs. Mitchell advised members that annual depreciation is approximately $2.5M. She stated this is the amount that would optimally be set aside each year for the replacement of current assets.

Referring to the Budget Balance/Reserve Policy - Water/Wastewater Fund Policy #3 - Page 5, Mrs. Mitchell explained that the minimum reserve of 2% of the current year operating revenues had been changed to at least $250,000. She noted that the Analysis of Reserve Balances as of June 30, 2015 showed that neither fund had $250,000, so those reserves would need to be brought up to that level, but this would be done through excess revenues and not rate increases, etc. This would be done as the City could afford it and would be built into the forecast.

In regard to Budget Balance/Reserve Policy - Water/Wastewater Fund Policy #7 - Page 6, Mrs. Mitchell stated that the Water Impact Fee Reserve had been changed from 20% of the water revenues in the Impact Fee Reserve account to $1.5M and would be replenished over seven (7) succeeding years if used. She explained that this $1.5M was matched against what is done for the Wastewater Impact Fee Reserve. Mrs. Mitchell indicated that staff tries to keep approximately this amount in the fund, which is used when Mrs. Sharon Duca, Public Works Manager/City Engineer, submits portions of projects that involve growth. Mrs. Mitchell noted that an effort is made to maintain funds at a certain level so that emergencies can be covered. She noted that this fund was also not currently funded at the $1.5M level but would go through revenues.

In reference to the Budget Balance Reserve Policy - Electric Revenue Fund Policy #3 - Page 7, Mrs. Mitchell recommended that this contingency reserve be changed from 1% of current operating revenues to a flat amount of $750,000. Noting that the General Fund contingency reserve was $700,000, she advised members that there is also an insurance reserve for the Electric Fund at $750,000, plus depreciation future capacity reserves of $10M each, plus the rate stabilization reserve. Mrs. Mitchell felt that since there was other cushion available to hedge the City's risk in the Electric Fund, a big contingency reserve was not needed. She noted that the Electric Revenue Fund had never been kept at the same level.

In regard to Budget Balance/Reserve Policy - Electric Revenue Fund Policy #5 - Page 7, Mrs. Mitchell stated that she had changed the minimum balance from $350,000 to $750,000 to cover insurance deductibles to $750,000. This was a change made a couple of years ago which was never incorporated in the policy.

In reference to Budget Balance/Reserve Policy - Electric Revenue Fund Policy #6 - Page 7, Mrs. Mitchell stated, in light of information included in a presentation, entitled, "The Energy Authority Review of PJM Capacity Performance Auction" which was considered by the Utility Committee during their meeting of September 28, 2015, the City's penalties have the potential to increase significantly if its electric assets do not run when needed. For this reason, Mrs. Mitchell indicated that she would like to change the minimum balance in the Rate Stabilization Reserve from 3% to 10% and the not to exceed amount from 10% to 20%. If the reserve balance exceeds 20%, a credit would be applied to the power across adjustment.

Mrs. Mitchell directed members to the presentation, entitled "The Energy Authority, Review of PJM Capacity Performance Auction," Page 10 - Capacity Revenue at Risk for Dover's 145 MW of Generation (DY2018/19). Mrs. Mitchell explained that if the City's plant is unable to perform for eight (8) hours, penalties would be incurred, and penalties for the inability to perform for 16 hours would be $7.5M to $8M. She explained that during the past year, there was an incident during very cold weather when the City could not bring on the assets and was unable to provide 11 MW, resulting in a penalty of $562,000. Mrs. Mitchell indicated that on this chart, the 11 MW level would be reflected between $4M and $8M, noting that "it's a different world we life in now." She advised members know that this reserve would be a hedge against the potential for that penalty.

In response to Mr. Slavin, Mrs. Mitchell stated that the reason the City could not provide power was that the plant was not heated and, when the units were turned on, one (1) of the pipes burst due to the very cold weather. In addition, the City of Dover and many others had a problem obtaining gas due to Calpine.

Mr. Slavin advised members that Calpine is now first in line for gas and displaced the City of Dover.

Mrs. Mitchell stated that the burst pipe was the main reason for the problem, and gas was another issue. She advised members that mitigation measures were being taken, as reflected on Page 11 of the presentation, Pro-Active Mitigation Measures.

In response to Mr. Slavin, Mrs. Mitchell confirmed that there was currently a project to increase the capacity to deliver gas.

Responding to Ms. Stewart, Mrs. Mitchell stated that Dover is currently an interruptible customer; however, the City was negotiating two (2) gas contracts.

Mr. Scott Koenig, City Manager, advised members that the penalty Mrs. Mitchell referred to was a due to a polar vortex, noting that the Garrison Energy Center did not come online until June 1, 2015 for commercial operation. He was unsure if Calpine is a 100% firm gas customer, expressing his belief that Calpine had told staff at one (1) point that they could be cut off. Mr. Koenig stated that they were working on several gas transmission defects north of the City and would continue to do so. He advised members of the need for the City and a number of its customers to put pressure on Eastern Shore Natural Gas regarding gas availability in this area, for their benefit as well as that of private customers and everyone else, because gas is now a restriction on the Peninsula.

In response to Mr. Slavin as to whether Eastern Shore Natural Gas's project would increase the capacity needed through the west side, Mr. Koenig stated his belief that some looping was being done would increase availability and that transmission upgrades were currently happening.

Mrs. Mitchell advised members that the polar vortex occurred two (2) years ago; however, the $562,000 penalty was incurred in February 2015 when the pipe burst and before Calpine came online. She reiterated that proactive measures had been taken and the gas supply was being worked on as well. She noted that $423,000 of the $562,000 penalty was taken out of NAES's incentive.

Responding to Mr. Sudler regarding whether the pipes were wrapped with a heating mechanism, Mrs. Mitchell stated her belief that they could not be wrapped due to size. However, she stated that the building can be heated if the weather calls for it. In this case, the building was not heated because it was not believed that the City would be called on to run, but it was.

In response to Mr. Sudler regarding the pipe size, Mr. Harry Maloney, Electric Director, explained that there were various problems in February 2015. The first pipe was an eight (8) inch water line from the outside storage water tank that was a 68-inch line. The valve was shut because there was a leak, and they could not get the valve open. Mr. Maloney indicated that when they got the valve working, the line was frozen. When staff got water in the boiler, they started firing the boiler, and the boiler blew a tube. When they went to put Unit 3 online, which has an outside boiler, some of the lube oil systems froze because there were 20 m.p.h. winds. Mr. Maloney reiterated the need for the unit to run, noting that staff should have anticipated, gotten the boilers warm, and gotten things running, even at minimum load. He noted that it was very cold and windy that weekend and everything was ice cold.

Mr. Sudler questioned if future methods and strategies were being put in place to prevent this from occurring again. Responding, Mr. Maloney confirmed that staff was going to at least get the boiler warm.

In response to Mr. Hosfelt, Mrs. Mitchell confirmed that NAES Corporation was managing the plant for the City at the time this occurred and continues to manage it. Mrs. Mitchell stated that this decision was made at the Risk Management Committee meeting, and NAES was not a party in that meeting; however, staff was making sure to bring them in. She noted that Mr. Vince Scire, Plant Manager, did speak up and say that he was confident that they could run the plant; however, it was not warm because the decision was made that it was not believed the City would be called upon. It was a joint decision and not that of any one (1) person.

Responding to Mr. Hare, Mrs. Mitchell stated that this was a group decision made by Mrs. Mitchell, Mr. Koenig, The Energy Authority (TEA) staff, and Mr. Scire, and the decision is ultimately the City's.

Mr. Hare questioned if NAES should be the ones to make the decision since the City pays them to keep the plant running. Responding, Mrs. Mitchell stated that a change was made to bring NAES on board, make sure they are involved in all these decisions, and ask them to raise a red flag if they think something is amiss or being misjudged.

In response to Mr. Hare as to why the building was not warmed, Mrs. Mitchell stated that they did not think the City would be called upon by PJM. She explained that the unit is not scheduled to run unless it is believed that it will be called upon because of the cost. If the unit is turned on and does not run, the City would be out that money. In this case, the situation worked in the City's disfavor rather than in its favor.

Responding to Ms. Stewart, Mrs. Mitchell stated the unit was called during the polar vortex the year before but was unable to perform. She noted that the whole State was having problems at that time because trucks with fuel could not get in due to ice on the roads.

Mr. Hare stated, from NAES's perspective, the City would be telling them when they could warm up the plant, but if a pipe bursts, NAES would have to pay, noting that NAES paid $423,000 but was not allowed to make the decision. Responding, Mrs. Mitchell stated that this penalty was paid for non-performance as this was part of the contract.

Mrs. Hare stated that the City was paying NAES $7M per year to make those decisions and they should be held accountable.

In regard to Financial Reporting Policy #6 - Page 9, Mrs. Mitchell stated that this item was revised to delete the Distinguished Budget Presentation Award since the City was no longer participating in that program.

Mr. Koenig stated that during both cold spells, including the polar vortex and the February 2015 severe weather, what was learned is that the City cannot wait on passive management of the system and was moving into a phase of more active management of the asset. He noted that the City wants this asset to run and take advantage of economic opportunities, and that an Assistant Generation Manager position was requested in the budget so that the City can have a more active role in the plant and be more in tune with all the decisions being made. Mr. Koenig advised members that issues came up during the cold weather spells related to fuel delivery, etc., that had the City had not experienced in the past, the City was taking a more active approach to management of the system.

Mr. Koenig stated that capacity performance had been considered by the Utility Committee; however, the issue was that the maximum penalty exceeds the maximum revenue significantly. He expressed the desire to get into more active management to figure out how these assets that have aged fit into the picture. Mr. Koenig advised members that some did not believe that the City would be called at all once Calpine came online, and that was not the case, since the City was being called to run and must prepare to run if participating in these markets. Mr. Koenig stated that the learning curve coming out of this experience was that the City has to increase its available fuel supply for oil, because it is not guaranteed gas.

In reference to the firm 500 dekatherm gas contract mentioned by Mr. Maloney and Mrs. Mitchell, Mr. Koenig stated that this would just get the igniter started so that the burners could be lit on oil and was not to run the units. Once the unit was on, it would be run on a special oil that is being delivered. Mr. Koenig explained that each of these decisions are sequential, and a misstep at the lower level means, the higher up sequences are not attained. He noted that Mr. Maloney had been

active in older plant management, and Mr. Maloney raised the question very early on of why there was not a minimum level of heat running through the pipes so the City would be prepared to run. Mr. Koenig stated he was unsure what the fuel status was earlier in the year, but that pipe break prevented the unit from running and was the lynch pin at the point of the potential penalty. He stated all these things would play into to determining how to prepare for the winter coming up and how the plant would be managed.

Mr. Anderson questioned how much it cost for minimum heating in the plant during the winter. Responding, Mr. Koenig estimated the cost roughly at $2,000 to $10,000 per day. He explained that this would involve the plant and all of its piping, so some systems would be run to get it up to minimum temperature. Noting that Mr. Maloney had indicated that the steel had been at 22 degrees, Mr. Koenig explained the need to get this temperature up above the freezing mark 24/7.

In response to Mr. Anderson regarding the performance benchmarks being removed from the financial policies, Mr. Koenig stated that some of these bench marks that had been various parts of the budget were those of a standard municipal city. Some of them were very applicable, others were less applicable. He stated that staff had not come up with additional performance measures to put in the budget. Mr. Koenig stated that the City was embarking on a process to improve efficiencies, and the question was what kind of reporting Council wanted to see. He noted that he did not want to put out 100 page report on all these bench marks if no one would look at it or find the information valuable. Mr. Koenig stated that, on a daily basis, staff is not judged by the 875 trash cans that they pick up, but by the one (1) or two (2) that might have been missed. He indicated that feedback was needed from Council as to what measures they want to see in the budget, or information that they would like to see reported.

Mr. Anderson noted that this information did not all have to be in the budget. Concurring, Mr. Koenig stated that it could be in the City Manager's or department head's report. If there were things in those reports that Council believed were missing, they would be easy to change and Council could be updated on information that is relevant to them.

Noting that the unit had not been heated because it was not believed that the City would be called, Mr. Hare questioned when the building would have been heated. Responding, Mr. Koenig stated that this would depend on the weather, because if the ambient air temperature had been over 40 degrees, it would not have needed to be heated.

Mr. Hare reiterated the need for preventive measures. Responding, Mr. Koenig stated that, looking back, staff would not make the same decisions for this year. Measures would be put in place to spend the money to heat the plant if cold weather was expected.

Mr. Hare stated that consideration should be given to the fact that, due to the plant's age, the next time the problem may be different and not an easy fix, and Mr. Koenig concurred.

Responding to Mr. Sudler regarding the leak that had occurred in the shed, Mr. Maloney explained that the boiler has two (2) inch tubes that go all the way around. The boiler is 30 feet by 30 feet. The

water used by the boiler has a ph value of 10, compared to a ph of seven (7) for drinking water, and it is demineralized. He noted that the outside water tank line that feeds the boiler froze.

Mr. Sudler questioned if some type of low-cost heating system could be put in the shed similar to those used by hotels. Responding, Mr. Maloney stated that the whole length of the turbine floor in plant is wide open. He noted that it is possible to get a radiant heat gas burner to raise the temperature into the 40's or 50's to keep the ambient air decent. Mr. Maloney stated that other things could be done, like running the fan motors, which would generate heat, or running oil and water circulating pumps. He recommended starting to use electricity and turning on auxiliary equipment. Mr. Maloney advised members that the City bills itself, which he had never heard of before, noting that the City bills the power plant retail electric rates for consumption when it is not generating power, so budgets were being examined. He stated that things would be turned on and cautioned members that the budget would reflect a climb in electric consumption in the plant when the units are offline. He emphasized that this equipment must be run.

Mr. Cole moved to recommend approval of the City of Dover Financial Policies *(Attachment #3)*, as recommended by staff, seconded by Mr. Shevock and unanimously carried.

Annual Review of Investment Policy

Mrs. Donna Mitchell, Controller/Treasurer, advised members that the provisions of the City of Dover Investment Policy require an annual review by the Legislative, Finance and Administration Committee and adoption of any recommended changes by City Council. Prior to this review, the City Controller/Treasurer, along with the Assistant Controller/Treasurer, met with the City's Investment Advisor to review the policy as well.

Upon completion of this review staff recommended the changes below, all of which had been updated in the Draft Investment Policy:

- Changing maximum maturity to measure from settlement date instead of trade date.
    - Rationale: At times, issuers may issue debt today but the security may not settle for a few days. Allowing the maximum maturity to be measured from settlement date (rather than trade date) should help Dover in opening up to new issue corporates and Munis at attractive pricing (some new issues have price concessions, where the yield is above market).
- Change credit requirements on short-term holdings to A-1 "or" P1 by S&P and Moody's rather than A-1 "and" P1.
    - Rationale: Some issuers do not pay for both short-term ratings when one will do. This will allow Dover to further diversify the portfolio among high quality issuers. And it keeps the short-term ratings language consistent with long-term rating language (which is written as "or" versus "and" in the policy).

Staff recommended approval of the Investment Policy, as amended.

Mr. Cole moved to recommend approval of the Investment Policy Statement, as amended *(Attachment #4)*, seconded by Ms. Maucher and unanimously carried.

Delaware Land and Water Conservation Trust Fund (DTF) Trail Grant Application - Mallard Pond Trail

Mrs. Ann Marie Townshend, Director of Planning and Community Development, advised members that on January 2015, the Parks, Recreation and Community Enhancement Committee and City Council approved the concept plan developed by staff for improvements to Mallard Pond Park. These improvements include a pathway connection from Mallard Pond and Fox Hall West Addition to Marsh Creek and Forrest Avenue, along with the construction of a playground in the park. This pathway is identified in the Dover/Kent County MPO's Bicycle and Pedestrian plans for Dover, both of which were approved by City Council in Spring 2015. The pathway will provide connection from the Mallard Pond neighborhood to the sidewalks along Route 8 that connect with Dover High School.

The grant funds would allow for completion of the first phase of this trail, with the construction of a path connecting with Fox Hall West Addition in a future phase. If we are successful in the grant application, we would work with local legislators to secure the matching funds through the Community Transportation Fund. No work will be completed, nor will a contract be awarded for any improvements until such time that matching funds are secured.

Staff recommended acceptance of the grant if the award is made to the City of Dover.

Mr. Sudler moved to recommend acceptance of the grant, if the award is made to the City of Dover. The motion was seconded by Mr. Cole and unanimously carried.

By unanimous consent, the meeting adjourned at 6:59 p.m.

William F. Hare
Chairman

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Attachments
Attachment #1 - Handout - Late FY 15 Accruals
Attachment #2 - Proposed Ordinance #2015-18 - Budget Amendments for Fiscal Year 2016
Attachment #3 - City of Dover Financial Policies
Attachment #4 - City of Dover, DE Investment Policy Statement

Late FY15 Accrued Invoices

Project	Vendor	Amount Accrued	Original CF Amount	New CF Amount
WD1302	CB&I	$ 764,132.50		
WD1302	A-Del	$ 59,926.50	$ 2,121,400.00	$ 1,297,341.00
WW1509	Teal	$ 524,182.14	$ 911,500.00	$ 387,317.86
WQ1503	Teal	$ 77,906.97	$ 151,500.00	$ 73,593.03
ST1304	A-Del	$ 249,613.07	$ 1,746,100.00	$ 1,496,486.93
Total		$ 1,675,761.18	$ 4,930,500.00	$ 3,254,738.82

CITY OF DOVER ORDINANCE # 2015-18

2015-2016 BUDGET ORDINANCES - FIRST AMENDMENT

BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF DOVER, IN COUNCIL MET:

The amount hereinafter named aggregating Five Million Six Hundred Thirty Five Thousand Two Hundred dollars ($5,635,200) or so much thereof as may be necessary are hereby appropriated from current revenues and other funds for the use by several departments of the Municipal Government for the fiscal year beginning July 1, 2015 and ending June 30, 2016:

GOVERNMENTAL CAPITAL PROJECTS FUND
REVENUES AND BUDGET FOR 2015-2016

REVENUES

	2015/16 BUDGET	2015/16 REVISED
BEGINNING BALANCE - PROJECTS	**$ 154,800**	**$ 2,732,300**
REVENUES		
INCOME FROM SALE OF ASSETS	20,300	20,300
INTEREST EARNINGS	5,000	5,000
TRANSFER FROM GENERAL FUND	2,625,400	2,625,400
SUBTOTAL PROJECT RECEIPTS	2,650,700	2,650,700
TOTAL FUNDING SOURCES	2,650,700	2,650,700
TOTAL BEGINNING BALANCE AND REVENUES	**$ 2,805,500**	**$ 5,383,000**

EXPENSE SUMMARY

EXPENDITURES	2015/16 BUDGET	2015/16 REVISED
FIRE	$ 145,600	$ 445,800
GROUNDS MAINTENANCE	201,100	201,100
LIBRARY	-	-
LIFE SAFETY	55,700	55,700
CODE ENFORCEMENT	-	-
POLICE	262,100	284,100
RECREATION	-	66,000
STREETS	1,428,500	3,617,800
SANITATION	449,000	449,000
CITY MANAGER	24,700	24,700
FACILITIES MANAGEMENT	-	-
FLEET MAINTENANCE	84,000	84,000
DEPARTMENT SUBTOTAL	**2,650,700**	**5,228,200**
TOTAL EXPENDITURES	**2,650,700**	**5,228,200**
BUDGET BALANCE	154,800	154,800
TOTAL BUDGET BALANCE & EXPENDITURES	**$ 2,805,500**	**$ 5,383,000**

The City Manager is hereby authorized, without further approval of the City Council, to make interdepartmental transfers of up to five percent of the amount hereinafter appropriated to any department with the exception of any transfers prohibited by City Procedure #F306.

ADOPTED:

2015-2016 BUDGET ORDINANCES - FIRST AMENDMENT (CONTINUED)

WATER/WASTEWATER IMPROVEMENT & EXTENSION FUND
CASH RECEIPTS/REVENUES AND BUDGET FOR 2015-2016

BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF DOVER, IN COUNCIL MET:

The amount hereinafter named aggregating Fourteen Million One Hundred Eighty EightThousand Five Hundred dollars ($14,188,500) or so much thereof as may be necessary are hereby appropriated from current revenues and other funds for the use by several departments of the Municipal Government for the fiscal year beginning July 1, 2015 and ending June 30, 2016:

CASH RECEIPTS

	2015/16 BUDGET	2015/16 REVISED
BEGINNING BALANCE - WATER	$ 833,500	$ 4,747,500
BEGINNING BALANCE - WASTEWATER	1,027,600	4,504,600
TOTAL BEGINNING BALANCES	**1,861,100**	**9,252,100**
REVENUES		
BOND PROCEEDS - WATER	-	-
BOND PROCEEDS - WASTEWATER	-	-
STATE LOAN FUND - WATER	-	-
TRANS FR OPERATING FUND - WATER	1,800,000	1,800,000
TRANS FR OPERATING FUND - WASTEWATER	1,500,000	1,500,000
TRANSFER FR WASTEWATER IMPACT FEE	165,000	165,000
PROCEEDS FROM SALE OF ASSETS	-	-
INTEREST INCOME	25,000	25,000
MISCELLANEOUS RECEIPTS	-	20,200
TOTAL REVENUES	3,490,000	3,510,200
TOTAL BEGINNING BALANCES & REVENUES	**$ 5,351,100**	**$ 12,762,300**

EXPENSE SUMMARY

EXPENSES	2015/16 BUDGET	2015/16 REVISED
WATER	$ 2,028,600	$ 5,442,600
WASTEWATER	1,822,100	5,299,100
WATER TREATMENT PLANT	-	284,400
TOTAL EXPENSES	3,850,700	11,026,100
BUDGET BALANCE - WATER	617,400	773,400
BUDGET BALANCE - WASTEWATER	883,000	962,800
CURRENT YEAR BALANCE SUBTOTALS	1,500,400	1,736,200
TOTAL BUDGET BALANCES & EXPENSES	**$ 5,351,100**	**$ 12,762,300**

The City Manager is hereby authorized, without further approval of the City Council, to make interdepartmental transfers of up to five percent of the amount hereinafter appropriated to any department with the exception of any transfers prohibited by City Procedure #F306.

ADOPTED:

2015-2016 BUDGET ORDINANCES - FIRST AMENDMENT (CONTINUED)

ELECTRIC UTILITY IMPROVEMENT AND EXTENSION FUND
CASH RECEIPTS/REVENUES AND BUDGET FOR 2015-2016

BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF DOVER, IN COUNCIL MET:

The amount hereinafter named aggregating Twelve Million One Hundred Ten Thousand Eight Hundred dollars ($12,110,800) or so much thereof as may be necessary are hereby appropriated from current revenues and other funds for the use by several departments of the Municipal Government for the fiscal year beginning July 1, 2015 and ending June 30, 2016:

REVENUES

	2015/16 BUDGET	2015/16 REVISED
BEGINNING BALANCE	**$ 3,623,600**	**$ 6,684,100**
REVENUES		
TRANSFER FROM ELECTRIC	3,500,000	3,500,000
GENERAL SERVICE BILLING	1,900,000	1,900,000
INTEREST EARNINGS	26,700	26,700
TOTAL REVENUES	**5,426,700**	**5,426,700**
TOTALS	**$ 9,050,300**	**$ 12,110,800**

EXPENSE SUMMARY

EXPENSES	2015/16 BUDGET	2015/16 REVISED
ELECTRIC GENERATION	$ 1,655,000	$ 2,299,800
TRANSMISSION AND DISTRIBUTION	2,887,600	3,625,900
ELECTRICAL ENGINEERING	1,724,300	3,401,700
TOTAL EXPENSES	**6,266,900**	**9,327,400**
BUDGET BALANCE	**2,783,400**	**2,783,400**
TOTAL BUDGET BALANCE & EXPENSES	**$ 9,050,300**	**$ 12,110,800**

The City Manager is hereby authorized, without further approval of the City Council, to make interdepartmental transfers of up to five percent of the amount hereinafter appropriated to any department with the exception of any transfers prohibited by City Procedure #F306.

ADOPTED:

2015-2016 BUDGET ORDINANCES - FIRST AMENDMENT (CONTINUED)

COMMUNITY TRANSPORTATION IMPROVEMENT FUND
CASH RECEIPTS/REVENUES AND BUDGET FOR 2015-2016

BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF DOVER, IN COUNCIL MET:

The amount hereinafter named aggregating Six Hundred Eighty Eight Thousand Five Hundred dollars ($688,500) or so much thereof as may be necessary are hereby appropriated from current revenues and other funds for the use by several departments of the Municipal Government for the fiscal year beginning July 1, 2015 and ending June 30, 2016:

OPERATING REVENUES

	2015/16 BUDGET	2015/16 REVISED
PRIOR YEAR BALANCE	**$ 144,000**	**$ 512,900**
GRANTS REVENUE	500,000	500,000
INTEREST INCOME	500	500
TOTALS	**$ 644,500**	**$ 1,013,400**

OPERATING EXPENSES

	2015/16 BUDGET	2015/16 REVISED
PROGRAM EXP. GRANT RELATED	$ 644,000	$ 1,012,900
CURRENT YEAR BALANCE	500	500
TOTALS	**$ 644,500**	**$ 1,013,400**

The City Manager is hereby authorized, without further approval of the City Council, to make interdepartmental transfers of up to five percent of the amount hereinafter appropriated to any department with the exception of any transfers prohibited by City Procedure #F306.

ADOPTED:

City of Dover
Fiscal Year 2015/2016 Budget
First Amendment
Capital Investment Plan Amendments

Project #	Title	Fiscal Year 2015 Original CIP Budget	Fiscal Year 2015 Revised CIP Budget	Fiscal Year 2015 Prior Fiscal Year(s) Expenses	Fiscal Year 2015 Carry Forward Balance	FY 2016 Year Budget	Revised FY 16 CIP Budget
FR1501	Fire - SCBA Equipment	$ 300,200	$ 300,200	$ -	$ 300,200	$ -	$ 300,200
PR1501	Park & Playground Improvement Equipment	$ 66,000	$ 66,000	$ -	$ 66,000	$ -	$ 66,000
N/A	Police Department Vehicle	$ 169,600	$ 171,100	$ 148,978	$ 22,000	$ 242,200	$ 264,200
ST1304	Garrison Farm Streets & Stormwater	$ 2,600,000	$ 4,226,700	$ 2,480,657	**$ 1,496,500**	$ -	$ 1,496,500
ST1501	Salt Storage Barn	50,000	75,000	-	75,000	-	75,000
ST1502	Streets, Alleys & Concrete Program	900,000	624,400	182,988	**441,500**	1,000,000	1,441,500
ST1503	Misc Emerg. Street/Storm Repairs	75,000	75,000	40,090	35,000	-	35,000
ST1504	Old PW2 Site Improvements	150,000	150,000	106,195	43,900	385,000	428,900
ST1506	Stormwater Ditch Maintenance	15,000	15,000	-	15,000	-	15,000
ST1508	Stormwater Utility Planning	90,000	90,000	7,650	82,400	-	82,400
	Street Division	$ 3,880,000	$ 5,256,100	$ 2,817,580	$ 2,189,300	$ 1,385,000	$ 3,574,300
	Total General Capital Project Fund	**$ 4,415,800**	**$ 5,793,400**	**$ 2,966,558**	**$ 2,577,500**	**$ 1,627,200**	**$ 4,204,700**
	Total Increase in General Cap Proj Fund				**$ 2,577,500**		
CT1405	Lakeview Drainage Study	$ -	$ 24,400	$ 18,187	$ 6,300	$ -	$ 6,300
CT1562	Village of Cannon Mill Repavement	315,000	386,900	25,997	**361,000**	-	361,000
CT1599	Signage for the Hamlet & Bicentennial Village	2,700	2,700	1,170	1,600	-	1,600
	Total Community Transportation Fund	**$ 317,700**	**$ 414,000**	**$ 45,354**	**$ 368,900**	**$ -**	**$ 368,900**
	Total Increase in Comm Transportation Fund				**$ 368,900**		
N/A	Sterling Dump Truck	$ 66,900	$ 66,900	$ -	$ 59,900	$ -	$ 59,900
WD0804	1.0 MG Storage Tank - Denney's Road	-	2,470,700	2,500	2,468,200	-	2,468,200
WD1302	Garrison Farm Storage Tank	400,000	4,221,600	2,100,291	**1,297,300**	-	1,297,300
WD1506	Shallow Well #7 Abandonment	15,000	15,000	-	15,000	-	15,000
WQ1503	West Dover Connector Project	-	336,000	184,561	**73,600**	-	73,600
	Water Division	$ 481,900	$ 7,110,200	$ 2,287,352	$ 3,914,000	$ -	$ 3,914,000
	Total Increase in Water Division				$ 3,914,000		
N/A	Sterling Dump Truck	$ 66,900	$ 66,900	$ -	$ 59,900	$ -	$ 59,900
N/A	Sterling Jet Truck	210,400	173,900	-	186,000	-	186,000
WW1206	Brandywine Pump Station Replcmnt	-	339,100	237,906	101,200	-	101,200
WW1303	Westover Pump Station	718,000	1,299,600	7,254	1,292,400	-	1,292,400
WW1304	Garrison Farm Wastewater Projects	-	3,199,700	2,571,260	628,500	-	628,500
WW1503	Hazzlettville Rd Interceptor	755,000	201,700	-	462,100	-	462,100
WW1504	Lakeview Drive Pump Station Replacement	450,000	408,400	48,817	359,600	-	359,600
WW1509	West Dover Connector Road Utility Relocation	-	922,300	10,859	**387,300**	-	387,300
	Wastewater Division	$ 2,200,300	$ 6,611,600	$ 2,876,096	$ 3,477,000	$ -	$ 3,477,000
	Total Increase in Wastewater Division				$ 3,477,000		
	Total Water/Wastewater I & E Fund	**$ 2,682,200**	**$ 13,721,800**	**$ 5,163,448**	**$ 7,391,000**	**$ -**	**$ 7,391,000**
	Total Increase in Water/Wastewater I & E Fund				**$ 7,391,000**		

Exhibit A

City of Dover
Fiscal Year 2015/2016 Budget
First Amendment
Capital Investment Plan Amendments

Project #	Title	Fiscal Year 2015 Original CIP Budget	Fiscal Year 2015 Revised CIP Budget	Fiscal Year 2015 Prior Fiscal Year(s) Expenses	Fiscal Year 2015 Carry Forward Balance	FY 2016 Year Budget	Revised FY 16 CIP Budget
EG1212	MR Unit 3 Turbine Inspection	$ -	$ 151,800	$ 98,392	$ 53,500	$ -	$ 53,500
EG1416	VanSant Capacity Increase	750,000	901,900	409,784	492,200	-	492,200
EG1504	McKee Unit 3 Boiler System	295,000	138,000	57,287	80,800	42,000	122,800
EG1506	McKee & VanSant Safety Improvement	52,000	52,000	33,776	18,300	-	18,300
	Electric Generation	$ 1,097,000	$ 1,243,700	$ 599,239	$ 644,800	$ 42,000	$ 686,800
	Total Increase in Electric Generation				$ 644,800		
N/A	Metering Infrastructure	$ -	$ 150,000	$ -	$ 150,000	$ -	$ 150,000
N/A	Vehicle/Truck	-	33,000	-	33,000	387,600	420,600
EE1509	West Dover Connector	250,000	250,000	94,209	155,800	-	155,800
EE1516	Chestnut Grove (new developments)	299,000	255,000	118,999	136,000	-	136,000
EE1522	Garrison Oak Park (new developments)	184,000	184,000	166,523	17,500	-	17,500
EE1525	Leander Lakes Apt Phase I (new developments)	73,000	73,000	3,608	69,400	-	69,400
EE1526	Playtex Addition (new developments)	200,000	354,100	204,136	150,000	-	150,000
EE1544	Nottingham Meadows (new developments)	28,600	28,600	2,011	26,600	-	26,600
	Transmission & Distribution	$ 1,034,600	$ 1,327,700	$ 589,486	$ 738,300	$ 387,600	$ 1,125,900
	Total Increase in Transmission & Distribution				$ 738,300		
N/A	Battery Bank Replacement	$ 24,500	$ 24,500	$ 10,875	**$ 13,700**	$ -	$ 13,700
EE1312	General Scott Switchgear	1,100,000	1,137,600	30,421	1,107,200	-	1,107,200
EE1443	GOTP Transmission Line Relocation	-	550,000	141,526	408,500	-	408,500
EE1500	69 KV Rebuild	75,000	75,000	12,029	63,000	-	63,000
EE1520	69 kV Cable Replacement North Street	85,000	85,000	-	85,000	50,000	135,000
	Engineering Division	$ 1,284,500	$ 1,872,100	$ 194,851	$ 1,677,400	$ 50,000	$ 1,727,400
	Total Increase in Engineering				$ 1,677,400		
	Total Electric I & E Fund	**$ 3,416,100**	**$ 4,443,500**	**$ 1,383,576**	**$ 3,060,500**	**$ 479,600**	**$ 3,540,100**
	Total Increase in Electric I & E Fund				**$ 3,060,500**		
	Total Carryforward balances from FY 2015				**$ 13,397,900**		

CITY OF DOVER
FINANCIAL POLICIES

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CITY OF DOVER, DELAWARE
FINANCIAL POLICIES

The purpose of these policies is to present a standardized set of principles that the City follows in managing its financial and budgetary affairs. These are general statements of policies, which represent long-standing principles, traditions, and practices that will be used to guide the City in maintaining financial stability. It will be the responsibility of the Finance Department to ensure the financial objectives of these policies are maintained.

Revenue Policy

1. The City will strive to maintain a broad and diversified revenue base that will equitably distribute the burden of supporting City services and will protect the City from short-term fluctuations in any one revenue source.

2. The City will actively support economic and industrial development recruitment and retention efforts to provide for a solid revenue base.

3. The City will maintain timely collection systems and implement necessary enforcement strategies to collect revenues from available sources.

4. The City will establish user fees and charges for services, when feasible, at levels related to the cost of providing the services. The City will review the fees and charges every three to five years to determine modifications needed to keep pace with the cost of providing the services. Property Tax Rates are set annually

~~**5. The City will review its incentive programs every three years and provide City Council with the amount of foregone revenues and any recommended changes. I don't believe this is being completed now. Do we want to do so? The GASB has issued GASB Statement No. 77 Tax Abatement Disclosures that will require to have this information reported in the Annual Financial Report each year.**~~

6. The City will establish, when feasible, self-supporting enterprise funds and intergovernmental service funds in which a relationship between revenues and expenditures clearly exists.

7. The City will project current revenues on a conservative basis so the actual revenues will consistently meet or exceed budgeted revenues. Revenues greater or less than the original budget will flow through to the audited Ending Budget Balance.

8. The City will maintain a budgetary control system and will prepare reports, which compare actual revenues to budgeted amounts.

9. The City will limit the designation of General Fund revenues for specified purposes to maximize flexibility in budgeting and revenue utilization.

10. The City will review annually and revise, where necessary, its cost allocation formulas, i.e. internal service departments.

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11. Upon satisfying all rate covenants the City will provide operating transfers to the General Fund. From the Water/Wastewater Utility no greater than $1,000,000 and from the Electric Utility no greater than $10,000,000.

Expenditure Policy

~~1.~~ Basic and essential services provided by the City will receive first priority for funding, i.e. Public Safety & Health, Utilities, Streets, & Sanitation~~. The City will establish performance measurements for all program areas, when feasible. These measures will reflect the demand, workload capability, and projected outcomes for the program to accomplish its objectives. Do we have valid performance measurements by program and are they being reported?~~

2. A report of the expenses of the Public Safety categories that have been identified will be presented to City Council two (2) times; once upon delivery of the proposed budget in May and the other upon the adoption of the budget in July. The report will map the revenues that have been identified to support the expenses, how much of a gap there is, and what the trend is for closing the gap over a 20 year period. The revenues will be the direct revenues of those programs and the Property Tax Revenue, excluding BID taxes.

3. The City will adopt a balanced budget, by fund, for all funds maintained by the City, in which total anticipated revenues must equal or exceed the budgeted expenditures for each fund. The Beginning Budget Balance will not be considered a revenue source.

4. The City will maintain a budgetary control system to ensure adherence to the original adopted budget and will prepare reports, which compare actual expenditures to budgeted amounts. Expenditures greater or less than the original adopted budget will flow through the audited Ending Budget Balance.

5. The City will restrict the use of appropriations as follows:
   - Funds appropriated for personnel expenses shall be restricted to use as personnel expenses; Any personnel savings at the end of each fiscal year will be re-appropriated in the next fiscal year to be transferred to the City's unfunded retirement liabilities;
   - Funds appropriated as capital expenses shall be restricted to use as capital expenses;
   - Funds appropriated as operating expenses shall be restricted to use as operating expenses;
   - All requests for additional personnel shall be accompanied with a five-year estimate on the costs of such position(s), including salaries and other employment costs (OEC's);

6. The City will refrain from budgeting revenues derived from infrequent and unanticipated transactions for ongoing expenses. These revenues will be set aside for asset replacement or as otherwise directed by ~~Mayor and~~ Council.

7. The City will provide access to medical, dental, vision, life, AD & D, and short-term disability insurance for its employees. The cost for these benefits will be a shared responsibility between the City and its employees as outlined in the City Personnel Handbook or collective bargaining agreements

Draft

8. The City will provide access to medical and dental insurance for its retirees and their families. The cost for these benefits will be a shared responsibility between the City and its retirees as outlined in the City Personnel Handbook or collective bargaining agreements.

9. The City will provide access to appropriate retirement plans for its employees. The City will make contributions for eligible employees at the actuarial determined percentage defined for each of the respective retirement plans.

10. The City will establish an Other Post-Employment Benefit Fund (OPEB) ~~and provide available funding for early implementation of a new accounting standard promulgated by the Government Accounting Standards Board~~. The City will make contributions for eligible employees and retirees at the actuarial determined rates or percentages to fund future retiree medical benefits.

Debt Policy

1. The City will maintain a debt management policy and full disclosure on financial reports.

2. The City will maintain communications with bond rating agencies and continue to strive for improvements in the City's bond rating.

3. The City will adhere to its debt covenants.

4. The City will review its debt capacity every three (3) years.

5. The City will pay for all capital projects and capital improvements on a pay-as-you-go basis using current revenues ~~whenever~~ if possible. If a project or improvement cannot be financed with current revenues, long-term debt or use of reserves will be recommended.

6. The City will refrain from issuing long-term debt for a period in excess of the expected useful life of the capital project.

7. The City will use special assessment revenue or other self-supporting bonds instead of general obligation bonds, when practical.

8. The City will seek refinancing of outstanding debt if it is determined that the City will benefit by reduced interest expense over the remaining life of the bonds.

Budget Balance/Reserve Policy – General Fund

1. The City will strive to maintain a minimum Budget Balance, of at least 8% and no greater than 12% of the current year operating revenues for the General Fund, excluding the carry forward balance. The purpose of the budget balance is to meet temporary fluctuations in cash flows and to provide a cushion for loss of revenues until operating changes can be implemented. If the final Budget Balance exceeds the amount as approved in the budget ordinance, such funds shall be used to provide for unfunded retirement liabilities or as otherwise designated by City Council. The City may use monies in the Budget Balance only in times of fiscal and economic hardship.

Draft

2. Once achieved, at no time should the City's budget balances fall below their specified percentages. If a shortfall occurs in the budget balance and immediately restoring the balances to the specified percentage would cause an extreme burden on the taxpayers, the budget balance may, with the ~~Mayor's and~~ City Council's approval, be restored to the specified percentage within one (1) year, but in any case, no longer than three (3) years.

3. The City will maintain a minimum reserve, in a contingency account, of at least $700,000 ~~2% of the current year operating revenues for the General Fund~~. The City may only use monies in the contingency accounts to cover emergencies of a non-recurring nature that are over and above the normal course of operations. Examples are uninsured losses, storms or hurricane damages. The Contingency Reserve <u>will not</u> be used to balance the operating budget.

4. The total of the General Fund budget and contingency balances shall not exceed 17% (~ 2 months) of Budgeted Operating Revenues.

5. The City will create a Capital Asset Replacement account for Governmental Fund asset procurements. Optimally, the amount set aside for future asset replacements should equal the annual depreciation of the current assets. (Annual Depreciation is approximately $2.5 million per year) The City will appropriate excess (amounts greater than budgeted) revenues to fund this account, or if the balance is less than the $500,000 minimum, $200,000 per annum until such time the minimum balance is replenished.

6. The City will create a General Capital Project Fund to account for all General Government asset procurements and projects. The City will provide operating fund transfers and/or debt proceeds for each fiscal year's Capital Investment Plan. All vehicle and equipment purchases under $25,000 will be budgeted on a pay as you go basis.

<u>Budget Balance/Reserve Policy – Water/Wastewater Fund</u>

1. The City will strive to maintain a minimum Budget Balance, of at least 8% and no greater than 17% (two months) of the current year operating revenues for each of the Water & Wastewater Utility Funds, excluding the carry forward balance. The purpose of the budget balance is to meet temporary fluctuations in cash flows and to provide a cushion for loss of revenues until operating changes can be implemented. If the final Budget Balance exceeds the amount as approved in the budget ordinance, such funds shall be used to provide for unfunded retirement liabilities or as otherwise designated by City Council. The City may use monies in the Budget Balance only in times of fiscal and economic hardship.

2. Once achieved, at no time should the City's budget balances fall below their specified percentages. If a shortfall occurs in the budget balance and immediately restoring the balances to the specified percentage would cause an extreme burden on the ratepayers, the budget balance may, with the ~~Mayor's and~~ City Council's approval, be restored to the specified percentage within one (1) year, but in any case, no longer than three (3) years.

3. The City will maintain a minimum reserve, in a contingency account, of at least $250,000 ~~2% of the current year operating revenues~~ for each the Water & Wastewater Fund. The City may only use monies in the contingency accounts to cover emergencies of a non-recurring nature that are over and above the normal course of operations. Examples are uninsured losses, storms or hurricane damages. The Contingency Reserve will not be used to balance the operating budget.

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4. The total of the combined Water & Wastewater Fund budget and contingency balances shall not exceed 25% (3 months) of Budgeted Operating Revenues.

5. The City will maintain a Capital Asset Replacement account to cover replacement or procurement of assets of the utility. Optimally, the amount set aside for future asset replacements should equal the annual depreciation of the current assets. The City will maintain a minimum balance of $500,000 for each utility for Capital Asset Replacements. The City will appropriate excess revenues to fund this account, or if the balance is less than the minimum $100,000 per annum for each utility until such time the minimum balance is achieved.

6. The City established by ordinance on December 17, 1996 the Wastewater Impact Fee Reserve to provide for future expansion of the City's wastewater system due to increased demand. The ordinance further provides for debt service payments attributed to wastewater expansion projects to be funded by the current year's collection of Impact Fees and the remainder to be deposited into the reserve account. The City shall maintain a minimum of 20% of wastewater revenues in the Impact Fee Reserve account. Amounts used to finance projects shall be replenished by the operating revenues of the Wastewater Fund over the succeeding seven years of any project completion.

7. The City established by ordinance on February 1, 2008 the Water Impact Fee Reserve to provide for future expansion of the City's water system due to increased demand. The ordinance further provides for debt service payments attributed to water system expansion projects to be funded by the current year's collection of Impact Fees and the remainder to be deposited into the reserve account. The City shall maintain a minimum of $1.5 million ~~20%~~ of water revenues in the Impact Fee Reserve account. Amounts used to finance projects shall be replenished by the operating revenues of the Water Fund over the succeeding seven (7) years of any project completion.

8. The Water & Wastewater Improvement & Extension Fund budget balance shall be no less than $200,000 of the current fiscal year's appropriation for water and wastewater projects to allow for project variances and change orders; a 10% contingency shall be included in project budgets greater than $250,000 if the Department Head determines it to be appropriate. All vehicle and equipment purchases under $25,000 will be budgeted on a pay as you go basis. The City Manager shall make the necessary budget amendments in accordance with the City of Dover Purchasing & Budget Amendment Policies.

Budget Balance/Reserve Policy – Electric Revenue Fund

1. The City will strive to maintain a minimum Budget Balance, of at least ~~8% and no greater than~~ 12% (45 days) of the current year operating revenues for the Electric Revenue Fund, excluding the carry forward balance and power cost adjustments. The purpose of the budget balance is to meet temporary fluctuations in cash flows and to provide a cushion for loss of revenues until operating changes can be implemented. If the final Budget Balance exceeds the amount as approved in the budget ordinance, such funds shall be used to provide for unfunded retirement liabilities or as otherwise designated by City Council. The City may use monies in the Budget Balance only in times of fiscal and economic hardship.

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2. Once achieved, at no time should the City's budget balances fall below their specified percentages. If a shortfall occurs in the budget balance and immediately restoring the balances to the specified percentage would cause an extreme burden on the ratepayers ~~taxpayers~~, the budget balance may, with the ~~Mayor's and~~ City Council's approval, be restored to the specified percentage within one year, but in any case, no longer than three years.

3. The City will maintain a minimum reserve, in a contingency account, of at least $750,000 ~~1% of the current year operating revenues~~ for the Electric Revenue Fund. The City may only use monies in the contingency accounts to cover emergencies of a non-recurring nature that are over and above the normal course of operations. Examples are uninsured losses, storms or hurricane damages. The Contingency Reserve will not be used to balance the operating budget.

4. The total of the combined Electric Revenue Fund budget and contingency balances shall not exceed 25% (3 months) of Budgeted Operating Revenues.

5. The City has established by bond covenant an account to cover insurance deductibles on the electric transmission and distribution system or the generating plants. The City shall maintain a minimum balance of ~~$350,000~~ $750,000 to cover various deductibles.

6. Recognizing price fluctuations in the wholesale power markets the City has established a rate stabilization reserve. The purpose of using such a reserve is to level off the fluctuations in the wholesale power supply market and in turn provide stable rates to our customers. In those instances where the actual cost of power supply and generation are less/more than the budgeted cost of power supply and generation, the City will transfer the difference to/from the Rate Stabilization Reserve. The balance shall be maintained at a minimum of ~~3%~~ 10% not to exceed 20% ~~10%~~ of the purchase power cost in any given year. If the reserve balance exceeds the ~~10%~~ 20% maximum, a credit will be applied to the power cost adjustment.

7. The Electric Improvement & Extension Fund budget balance shall be no less than $200,000 of the current fiscal year's appropriation for electric system projects to allow for project variances and change orders; a 10% contingency shall be included in project budgets greater than $250,000 if the Department Head determines it to be appropriate. All vehicle and equipment purchases under $25,000 will be budgeted on a pay as you go basis. The City Manager shall make the necessary budget amendments in accordance with the City of Dover Purchasing & Budget Amendment Policies.

8. The City has established an account to provide for capital financing of Future Capacity or system expansion. The City shall maintain a balance equivalent to the value of 10% growth in capacity at any given time, or no less than $10,000,000. Amounts used to finance projects shall be replenished by the operating revenues of the Electric Revenue Fund over the succeeding seven years of any project completion.

9. The City has established an account to provide for replacement or procurement of utility system assets, otherwise known as Depreciation Reserve. Optimally, the amount set aside for future asset replacements should equal the annual depreciation of the current assets. The City will maintain a minimum balance of $10,000,000. The primary purpose of this account is to provide partial or all financing of major capital projects and minimize debt service payments. The account is also intended to cover unforeseen capital replacements due to equipment breakdowns, storms or hurricane damages. Amounts used to finance projects shall be replenished by the

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operating revenues of the Electric Revenue Fund over the succeeding seven (7) years of any project completion

10. The total of the combined Electric Revenue and Electric Improvement & Extension Fund budget and reserve balances shall be benchmarked at 50% Budgeted Operating Revenues. Operating Fund Budget Balance and Reserves shall be adjusted to appropriate levels through adjustments in the operating budget. Improvement & Extension Fund Budget Balance and Reserves shall be adjusted in accordance with the Capital Improvement Plan.

Investment and Cash Management Policy

1. The City will deposit all receipts on a timely basis in interest bearing accounts.

2. The City will strive to maximize the return on its investment portfolio without jeopardizing principal amounts.

3. The City will limit its investments to the types of securities provided for by Delaware statutes.

4. The City will diversify its investments by maturity date to protect against market fluctuations.

5. The City will purchase securities from qualified institutions based on competitive bids in an effort to obtain the highest available rates.

6. The City will maintain an Investment Policy based on prudent investment practices and will monitor all investment managers' compliance with policy objectives.

Capital Improvement Policy

1. The City will prepare and update, as needed a five-year Capital Improvements Program (CIP) which will provide for the orderly maintenance, replacement, and expansion of capital assets.

2. The CIP will identify long-range capital projects and capital improvements of all types, which will be coordinated with the annual operating budget to maintain full utilization of available revenue sources.

3. When preparing the CIP, the City will seek to identify all viable capital projects and capital improvements required during the subsequent five-year period. These projects and improvements will be prioritized by year and by funding source.

4. Every attempt will be made to match projects and improvements with available funding sources. Future operating costs and savings associated with a project or an improvement will also be given consideration in the establishment of priorities.

5. When appropriate, the City will seek Federal, State, and other funding to assist in financing capital projects and capital improvements.

6. The City will incorporate the reasonable findings and recommendations of other cities' Boards, Commissions, Committees, and Citizen Task Forces, as they relate to capital projects and improvements.

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7. The City will seek input from the public by holding public hearings in relation to the establishment of projects and project priorities.

Financial Reporting Policy

1. The City's accounting system will maintain records in accordance with accounting standards and principles outlined by the Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), and the State of Delaware.

2. The City will employ an independent accounting firm to perform an annual audit of the City's finances and make the annual audit available to all required and interested parties.

3. The City will produce monthly and quarterly financial statements reporting the current periods' activity for all funds maintained by the City.

4. The City will prepare an annual budget document that provides a basic understanding of the City's planned financial operations for the coming fiscal year. Copies of the proposed and final budget will be made available to all interested parties and opportunities will be provided for citizen input prior to final decisions on the budget.

5. The City will place continued emphasis on review and maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable assurance, but not absolute, assurance regarding:

    (a) the safeguarding of assets against loss from unauthorized use or disposition and,
    (b) the reliability of financial records for preparing financial statements and reports, and the maintaining accountability for assets.

6. The City will seek annual renewal of the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting ~~and the Distinguished Budget Presentation Award~~.

Adoption:
Approval by City Council: January 28, 2002

Most recent amendments:
1. Amended by City Council: June 11, 2014
2. Amended by City Council on September 8, 2014

Draft

City of Dover, DE

Investment Policy Statement

Dated September 8, 2014

(will reflect revised date after acceptance and approval of City Council)

1.0 Governing Authority

It is the policy of the City of Dover to invest public funds under its control in a manner that will provide the highest investment return consistent with the maximum safety of principal, while meeting cash flow needs of the City. The investment program shall conform to all state and local statutes governing the investment of public funds.

2.0 Scope

This Investment Policy Statement (the "Policy") applies to all financial assets of the City of Dover for which the City retains direct or indirect daily control. Funds for which the City has retained outside fund manager(s) shall also be governed by this Policy or, in the case of bond proceeds, related governing bond documents.

2.1 Accounts

2.1.1 Cash and Liquidity Accounts: The majority of the City's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by investment managers, selected by the City Council through competitive bid, in order to maximize the return to the City while, at the same time, providing for safety of principal and sufficient liquidity for the City to meet its cash needs. The City will manage its short-term investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any liquidity needs.

2.1.2 Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the City shall invest such funds in the Reserve Cash Account. This fund shall be managed and invested by an investment manager or managers, selected by the City Council after a competitive bid, in order to maximize the return on said money to the City while providing for the safety of principal.

All of the City of Dover's funds are accounted for in its Comprehensive Annual Financial Report. Those funds to which this Policy applies include (excluding the Deferred Compensation Plan and Pension Trusts):

2.2 Funds

2.2.1 General Fund
2.2.2 Capital Project Funds
2.2.3 Special Revenue Funds
2.2.4 Enterprise Funds
2.2.5 Internal Service Funds
2.2.6 Any new fund created by the City Council, unless specifically exempted

3.0 Objectives

The primary objectives of the City of Dover's investment activities, in order of importance shall be:

3.1 Safety

Preservation of principal is the foremost objective of the investment program. To attain this objective, funds shall be diversified among securities of high credit quality and liquidity, so that risk of loss of principal is minimized.

3.2 Liquidity

The City's investments shall be made for such periods as to enable the City to meet all operating requirements that may be scheduled or reasonably anticipated.

3.3 Return on Investments

A goal of the investment program shall be to maximize investment return within the constraints of Sections 3.1 and 3.2.

4.0 Delegation of Authority

Authority to manage the City of Dover's investment program is derived from this Policy, which is approved by City Council, and "Dover Code, PART I, Subpart A, Article II, Section 17" (attachment B) which states in part that "The Controller/Treasurer shall be the custodian of all of the City funds."

The City's Controller/Treasurer shall:

1) Review the this Policy annually and recommend changes, if any, to City Council;
2) Be charged with implementing the Policy, and may delegate authority to make investments to an investment advisor. The Controller/Treasurer shall be responsible for all investment transactions and shall establish controls to regulate the activities of the investment advisor, if any.
3) Ensure that records of the City's investment activities are kept for ten-years.

5.0 Prudence, Ethics and Conflicts of Interest

Any official of the City or investment advisor/manager empowered to make investments on behalf of the City of Dover shall comply with the following:

5.1 "Prudent Person" Rule

Investment decisions shall be made with the judgment and care which persons of reasonable intelligence, under circumstances prevailing at the time the investment is made, would exercise in the management of their own investments assuming that their objectives are those shown in Section 3.0 of this policy.

5.2 Ethics and Conflict of Interest

The delegate authorized to make City investments shall act at all times in an ethical manner, and shall not engage in activity that could impair or be perceived to impair their ability to make impartial investment decisions. They shall disclose to the Mayor and City Council any material interests in financial institutions with which the City has financial dealings, and which may be related to the performance of the investment program. Employees and officers shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the City.

6.0 Authorized Institutions and Dealers

All broker/dealers that desire to become qualified for investment transactions with the City shall meet the following:

1. Primary dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule)
2. Capital of at least $25,000,000 or capital of $5,000,000 for firms incorporated in the State of Delaware
3. Registered as a dealer under the Securities Exchange Act of 1934
4. Member of the Financial Industry Regulatory Authority (FINRA)
5. Registered to sell securities in the State of Delaware
6. Engaged in the business of effecting transactions in U.S. government, federal agency, and corporate securities for at least five (5) consecutive years

To the extent the City utilizes the services of an outside Investment Advisor, it shall be the responsibility of the Investment Advisor to maintain an approved list of brokers.

7.0 Safekeeping and Custody

To ensure that securities are deposited in an eligible financial institution prior to the release of funds, all trades of marketable securities will be executed by delivery vs. payment ("DVP").

Further, all securities will be held by an independent third-party custodian, in the name of the City, and evidenced by safekeeping receipts in the City's name. The custodian shall provide daily confirmation of held securities as well as a monthly transactions and holdings report.

8.0 Authorized Investments and Trading of Securities

The Controller/Treasurer or authorized delegate may invest only in the types of securities listed below. The maximum stated maturity of any security shall be limited to 10 years at ~~time of purchase~~settlement, unless otherwise stated. For Agency mortgage backed securities, the maximum maturity shall be defined as the weighted average life ("WAL"). WAL is a convention that estimates the expected weighted amount of time, in years, for the principal amount of an issue to be fully paid. For this sector, WAL shall be limited to 10 years, measured at the ~~original purchase date~~settlement date, provided by Bloomberg Financial Markets.

8.1 United States Government Securities

Marketable securities issued by the U.S. Government and supported by the full faith and credit of the U. S. Treasury either by statue or an opinion of the attorney general of the United States. Up to 100% of the portfolio may be invested in this sector.

8.2 Government Agency Securities

Debt securities issued by government-sponsored enterprises ("GSE"), federal agencies, federal financing banks, and instrumentalities of the U.S. Government. Up to 100% of the portfolio may be invested in this sector.

8.3 Certificates of Deposit and Time Deposits

8.3.1 Domestic Institutions: Issued or endorsed by a domestic bank, or a savings and loan association, organized and supervised under the laws of the United States and denominated in U.S. dollars; provided, however, that deposits are fully insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC").

If not insured by the FDIC:

- The banking institution must have assets of not less than $5 billion; and
- Issuers must have a short-term rating of A-1 by Standard & Poor's ~~and~~ or P1 by Moody's and a long-term rating of AA by Standard & Poor's or Aa by Moody's.

The maximum stated maturity of any investment in this sector shall be limited to 5 years at ~~time of purchase~~trade settlement. This sector shall not exceed 25% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.3.2 Delaware-Domiciled Institutions: Issued by or endorsed by any bank or savings association domiciled in the State of Delaware and organized and supervised under federal or State of Delaware banking laws which does not meet the requirements of Section 8.3.1 hereto; provided, however, that:

- For each of the latest two years, the bank or association has had a return on total average assets of 0.50% or greater and an average capital ratio (defined as total equity capital to total assets) of at least 1 to 20, or the instrument is secured as set forth in Section 9, "Collateralization of City Deposits," hereto; and
- Not more than the lesser of $10 million or 25% of an issuer's total equity capital, may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)
- The Board expressly affirms that, consistent with these guidelines, Delaware banks and savings associations should be considered as a source of investment.
- The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 20% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.4 Corporate Debt Instruments

Such instruments include commercial paper bankers' acceptances, and non-convertible senior debt securities (bonds and debentures).

8.4.1 Corporate securities must be denominated/issued in US dollars. Many foreign corporations issue debt/securities in the US market, in US dollars.

8.4.2 No single issuer shall exceed 5% of the City's portfolio.

8.4.3 Commercial Paper shall be limited to a final stated maturity of 270 days. This sector shall not exceed 25% of the total portfolio. Issuers shall be rated at least A-1 by Standard & Poor's ~~and~~ or P-1 by Moody's.

8.4.4. Bankers' Acceptances shall be limited to a final maturity of 365 days. This sector shall not exceed 25% of the City's Portfolio. Issuers shall be rated at least A-1 by Standard & Poor's ~~and~~ or P1 by Moody's.

8.4.5 Corporate bonds and debentures shall be limited to a final stated maturity of 5 years. This sector shall not exceed 50% of the total portfolio. Issuers shall hold a long-term rating of at least A by S&P or A2 by Moody's.

8.5 Repurchase Agreements

The underlying collateral shall consist of U.S. government and/or GSE securities provided, however, that:

8.5.1 All repurchase agreements must be governed by a written master repurchase agreement;

8.5.2 Agreements will be entered into only with respect to underlying securities in which the investment manager may otherwise invest as described above, and only with a recognized U.S. Government/broker or a bank which meets the requirements set out under paragraph Section 8.3.1 or 8.3.2 above;

8.5.3 In the case of repurchase collateral held in book-entry form in the Federal Reserve System, all deliveries of securities must be made, for the transfer thereof, through the Federal Reserve book-entry system to the account designated by the investment manager for such purpose. Securities held in certificated form must be delivered to the investment manager or a custodian as directed by the investment manager.

8.5.4 Any collateral employed under this paragraph shall be counted towards the applicable maximum limits set forth within these guidelines for such type of investment, and such collateral shall be valued at market at not less than 103 percent of the maturity value of the agreement and marked-to-the-market as requested by the investment manager.

8.5.5 Repurchase agreements shall be limited to a maximum maturity of 90 days from date of purchase. No single issuer shall exceed 25% of the City's portfolio.

8.6 Registered Investment Companies (Money Market Funds)

No single fund shall exceed 25% of the City's portfolio. Money market funds shall be rated AAAm by Standard & Poor's. A current prospectus must be obtained before investing in any money market fund, and current holdings reports must be maintained at least each month.

8.7 Mortgage-Backed Securities

Mortgage-backed securities issued by the following: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC). This sector shall not exceed 50% of the total portfolio.

8.8 Municipal Obligations

Taxable and tax-exempt securities issued by state and local governments and public authorities in the United States. The maximum stated maturity of any investment in this sector shall be limited to 5 years ~~at time of purchase~~. This sector shall not

exceed 30% of the City's portfolio. No single issuer shall exceed 5% of the City's portfolio. Issuers shall be rated at least "A" by Standard & Poor's or A2 by Moody's. Additionally Issuers in the short term market (under one year) shall be rated at a minimum of "mig-1" or "sp-1" for Moody's and S&P.

8.9 State of Delaware Investments Pool

8.9.1 Delaware Local Government Investment Pool (DELGIP) -The investment in this pool is permitted in relation to the City's cash flow and the guidelines set forth by the State of Delaware. The investment in this pool will not exceed 25% of the total funds available and will be monitored by the City's Finance Department on a monthly basis.

8.9.2 Delaware Local Government Retirement Investment Pool (DELRIP) The investment in this pool is permitted in relation to the City's Post-Retirement Benefits Fund. The investment in this pool will not exceed 25% of the total funds available and will be monitored by the City's Finance Department on a monthly basis.

8.10 Trading Securities

The Controller/Treasurer is hereby authorized to sell securities prior to their stated maturity date in the following circumstances:

1. A security with declining credit may be sold prior to its maturity to minimize loss of principal;
2. A security swap may be executed if it would improve the quality, yield, or target duration of the portfolio;
3. Securities may be sold to provide needed liquidity.

8.11 Internal Control on such transactions

8.11.1 An investment report will be provided to the Council on a quarterly basis.

8.11.2 All investment reporting documents will be provided to the independent auditors.

8.11.3 Investment records will be kept by the City for ten (10) years.

8.11.4 The trading shall not involve any hedge, derivatives and/or borrowing funds for trading purposes.

9.0 Collateralization of City Deposits

If the City deposits funds in any financial institution, those funds will be subject to the following collateralization requirements. The financial institution shall:

9.1 Collateralize the City's daily ledger balance(s) if, for any quarter during the most recent eight quarters the bank has not met both of the following two criteria:

- Return on total average assets of 0.50 percent or greater.
- Average capital ratio (total equity to total assets) of 5.00 percent or greater.

9.2 If either criterion in paragraph 9.1 is not satisfied collateral must be pledged and shall consist of one or more of the following securities:

- U.S. Government securities
- U.S. Government agency securities
- Federal Home Loan Board letters of credit
- State of Delaware securities

- Mortgaged backed securities as referenced in Section 8.7
- Securities of a political subdivision of the State of Delaware with a Moody's rating of "A" or better

9.3 Ensure that the securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 102 percent of the ledger balance(s) in the account(s) marked to market each day.

9.4 Ensure that securities pledged as collateral are housed at the Federal Reserve Bank or a mutually agreed upon third party depository. (The trust department of the winning vendor will not be acceptable.)

9.5 Provide reports on a monthly basis to the City Finance Department detailing the collateral pledged.

9.6 Provide a Call Report (Consolidated Report of Condition and Income, FFIEC 031) on a quarterly basis to the City Finance Department.

10.0 Policy Considerations

If securities owned by the City are downgraded by either Standard & Poor's or Moody's to a level below the quality required by this Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

If a security is downgraded two grades below the level required by the Policy, the security shall be sold immediately.

If a security is downgraded one grade below the level required by this Policy and matures within 6 months, the security may be held to maturity. The Controller/Treasurer may determine to sell the security if it is determined that there is a probability of default prior to maturity.

If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Controller/Treasurer.

11.0 Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The Treasurer shall also establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Prohibition of physical delivery securities
- Clear, written delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers

12.0 Performance Standards

The City of Dover's investment decisions shall be made with the objective of obtaining a rate of return commensurate with the investment risk constraints and the cash flow needs. On a quarterly basis, the Controller/Treasurer shall compare the City's portfolio against the

Merrill Lynch 0-5 Year U.S. Treasury Index, in terms of time-weighted total return and average duration for the period under review.

13.0 Reporting

At the end of each calendar quarter, the Controller/Treasurer will submit a report of all quarter-ending investments to the Mayor and City Council. Reports shall include the following:

- Listing of individual securities held as of last day of reporting period, sorted by sector
- Par, market, and amortized cost values of each security
- Coupon, current yield, and final stated maturity date of each security

14.0 Investment Policy Adoption

The City of Dover's investment policy will be adopted by the City Council after review and recommendation of the Legislative and Finance Committee. The policy will be reviewed at least once every year by the Legislative and Finance Committee, which is charged with considering the existing policy and any recommendations to modify the policy. Any modifications to the policy must be approved by the City Council.

LEGEND

1. Original approval by City Council - November 14, 1988
2. Revised policy approved by City Council - March 7, 2005
3. City Council Approved with No Changes – April 14, 2008
4. Revised policy approved by City Council – July 25, 2011
5. Revised policy approved by City Council – August 12, 2013
6. Revised policy approved by City Council – September 8, 2014

ATTACHMENT A

GLOSSARY

AGENCIES: Federal agency securities, otherwise known as "Government Sponsored Enterprises."

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

BANKERS ACCEPTANCE: A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: An unsecured obligation issued by a corporation or bank to finance its short-term credit needs. Maturities typically range from one (1) to 270 days.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Dover. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

CORPORATE BONDS: A debt security issued by a corporation based in the United States of America. Such bonds usually have a par value of $1,000, have a term maturity, and are traded on a major exchange.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, in an attempt to limit risk.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Mae's.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumable be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MORTGAGE-BACKED SECURITIES (MBS): An investment instrument that represents ownership of, and is backed by, an individual interest in a pool of mortgages such as those issued by Ginnie Mae or Freddie Mac. Principal and interest from the individual mortgages is used to pay principal and interest on the MBS.

MUNICIPAL NOTES AND BONDS: Securities issued by a state, city, or local government to finance operations or special projects.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody

state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: A measure of worth, either at security or aggregate portfolio level, over a period of time. There are many return conventions, including but not limited to yield to maturity at cost, yield to maturity at market, yield to worst, time weighted total return, dollar weighted total return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agree-ment, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT: The purchase of a security by a dealer with the agreement to sell it back to the seller at a fixed price at a later date. Typically used by owners of securities to finance short-term needs without having to liquidate the security.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

TIME DEPOSITS: A savings account or CD held for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

TREASURY BILLS: A short-term (less than one year) non-interest bearing discount security issued by the U.S. Treasury department to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1: also called net capital rule and net capital ratio.

Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VARIABLE RATE MASTER DEMAND NOTES: A floating rate security with initial maturities and indexed rates chosen by the investor. The interest rate is adjusted periodically, usually off a standard such as that prevailing on a Treasury Bill or the prime interest rate.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security.

NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

ATTACHMENT B

Dover, Delaware, Code of Ordinances >> PART I - CHARTER AND RELATED LAWS

PART I - CHARTER AND RELATED LAWS [1]

Subpart A - CHARTER

PREAMBLE [3]

We the people of the City of Dover, under the constitution and laws of the state of Delaware, in order to secure the benefits of local self-government and to provide for an honest and accountable council-manager government, do hereby adopt this charter and confer upon the city the following powers, subject to the following restrictions, and prescribed by the following procedures and governmental structure. By this action, we secure the benefits of home rule and affirm the values of representative democracy, professional management, strong political leadership, citizen participation, and regional cooperation.

ARTICLE I. - POWERS OF THE CITY

ARTICLE II. - MAYOR AND COUNCIL

Sec. 17. - Controller/treasurer.

At the annual meeting the council shall elect a controller/treasurer to hold office until the next annual meeting of the council, or until his/her successor has been duly chosen and qualified, but subject to removal at any time by the council.

The controller/treasurer shall be the custodian of all the city funds and shall deposit them in a banking institution designated by the council.

(Amd. of 7-12-2005 (S.B. 126); Amd. of 7-8-2009 (S.B. 165, § 15))