City of Belmont

FINANCIAL POLICIES

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FOREWORD

In 2001, the Belmont City Council directed staff to work with the Finance Commission to develop a body of recommended policies in the functional areas of public finance to give staff guidance on sound financial management practices.

The City Council, after careful development by staff and the Finance Commission, has approved these resulting collections of policies. Each policy was developed drawing on the collective wisdom of many individuals with extensive and diverse experience in private and public finance. The recommended policies are intended to identify enhanced techniques and provide information about effective strategies for staff.

INTRODUCTION

The City Council has approved a set of policies to be followed by staff in their application of the various disciplines involved in public finance. These policies represent official Council positions and have been reviewed by the Finance Commission.

To enhance and promote the professional management of governmental financial resources, staff has prepared this compilation, City of Belmont Financial Policies. The policies are organized by subject matter under the following chapter headings:

1. Accounting, Auditing, and Financial Reporting

2. Cash Management

3. Budgeting and Financial Management

4. Debt Management

5. Retirement and Benefits Administration

6. Risk Management

7. Procurement

8. Appendix

The policies included herein fall into two levels: level 1 and 2. Level 1 policies can only be added, modified or deleted by an act of City Council. Level 2 policies can be added, modified or deleted by staff.

The Appendix includes policies that are frequently used and require routine updating.

This document will be updated regularly to include new or modified recommended practices. They will also be posted on the City's web site at www.belmont.gov. To assist in the implementation of these policies, references are provided if there are GFOA publications or other products that are helpful to the understanding of the subject.

Comments and suggestions for additional areas of public finance that could be better served by the development of policies are encouraged. They should be sent to Finance Director, City of Belmont, 1070 6th Avenue, Suite 301, Belmont, CA 94002, or by e-mail to finance@ci.belmont.ca.us.

City of Belmont Financial Policies

ACCOUNTING, AUDITING AND FINANCIAL REPORTING

A1 Application of Full-Cost Accounting to Municipal Enterprise Activities

Background

Local governments often are responsible for the efficient and effective management of their communities' enterprise operations. Governments that bear this responsibility often are required to make important decisions in connection with their activities, including the selection among various alternative processing and treatment options (e.g., burial vs. recycling) and the determination of the feasibility and desirability of outsourcing all or a portion of such activities. Governments need reliable information on the full cost of enterprise activities if they are to make informed decisions on these and similar matters.

Policy

Belmont's policy concerning the application of full cost accounting (FCA) to municipal enterprise activities is as follows:

1. FCA necessarily implies the use of full accrual accounting. Accordingly, the City will gather the accrual information needed for FCA even if all or a portion of their enterprise activities are included in a fund that uses some other basis of accounting for purposes of general-purpose external financial reporting.

2. Proprietary funds are particularly amenable to FCA because they use full accrual accounting. Consequently, Belmont may find value in using one or more proprietary funds to account for all or a portion of each discrete activity.

3. The use of a proprietary fund is specifically recommended for governments directly involved in solid waste disposal and winter water processing activities (e.g., landfills).

4. Belmont will compile the information needed to report on FCA both by "activity" (e.g., collection, transfer station, transport, solid waste facility, processing, sales) and by "path" (e.g., recycling, composting, waste-to-energy, land disposal treatment), where possible.

5. In comparing the costs of various enterprise management options (e.g., recycling vs. disposal), it is important that the City distinguish between "fixed" or "sunken" costs (i.e., costs that cannot immediately be avoided by selecting an alternative method of enterprise costing) and "variable" costs. At the same time, the City will need to take into account in their decisions that fixed costs ultimately behave like variable costs. For example, capital assets typically function as fixed costs, but behave more and more like variable costs as the approach the moment when they will need to be replaced).

6. FCA typically requires that certain costs be allocated among activities or paths. The usefulness and reliability of FCA data depend upon the reasonableness of this

allocation. Therefore, it is essential that allocation methodologies be documented and justifiable (i.e., they need to be both systematic and rational).

7. While the recovery of cost is a crucial consideration in the establishment of fees and charges for enterprise activities, it cannot be the only consideration. The establishment of rates and charges must also consider the enterprise's operation's cash flow needs (e.g., debt service may occur over a shorter period than the useful life of the asset acquired with the debt; in that case, rates may need to be established based upon debt service requirements rather than upon depreciation).

Adoption Date: June 26, 2001	Policy Level: **2**

A2 Audit Procurement

Background

The City Council has long required that the City obtain an independent audit of its financial statements performed in accordance with the appropriate professional auditing standards. Properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions and by maintaining citizens' confidence in their elected leaders.

Policy

Belmont's policy regarding the selection of auditing services is as follows:

1. The scope of the independent audit will encompass not only the fair presentation of the general purpose (i.e., combined) financial statements, but also the fair presentation of the financial statements of individual funds and account groups. The cost of extending full audit coverage to the financial statements of individual funds and account groups can be justified by the additional degree of assurance provided. Nevertheless, the selection of the appropriate scope of the independent audit ultimately remains a matter of professional judgment. Accordingly, those responsible for securing independent audits will make decisions concerning the appropriate scope of the audit engagement based upon the City's specific needs and circumstances, consistent with applicable legal requirements.
2. With regards to audit contracts, Belmont will require that the auditors of financial statements conform to the independence standard promulgated in the General Accounting Office's *Governmental Auditing Standards* even for audit engagements that are not otherwise subject to generally accepted government auditing standards.
3. To the extent reasonable, Belmont will enter into multiyear agreements when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "start-up" costs over several years, rather than over a single year.
4. Belmont will periodically undertake a full-scale competitive process for the selection of independent auditors, consistent with applicable legal requirements. This process will actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory.
5. Professional standards allow independent auditors to perform certain types of nonaudit services for their audit clients. Any significant nonaudit services should always be considered in advance by Belmont's Finance Commission (audit committee). Furthermore, Belmont will routinely explore the possibility of alternative service providers before making a decision to engage independent

auditors to perform significant nonaudit services.

6. The audit procurement process is structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case will price be allowed to serve as the sole criterion for the selection of an independent auditor.

References

- The Audit Management Handbook, Stephen J. Gauthier, GFOA, 1989.
- An Elected Official's Guide to Auditing, Stephen J. Gauthier, GFOA, 1992.
- Governmental Accounting, Auditing, and Financial Reporting (GAAFR), Stephen J. Gauthier, GFOA, 1994.
- Audit RFP Diskette, GFOA.

Adoption Date:	Revision Date:	Policy Level:
June 26, 2001	June 24, 2003	**1**

A3	Computer Disaster Recovery Planning

Background

Belmont provides many essential services to its citizens. The disruption of these services following a disaster could result in significant harm or inconvenience to those whom Belmont serves. Belmont has a duty to ensure that disruptions in the provision of essential services are minimized following a disaster. Today the public sector, like the private sector, relies heavily upon computers and other advanced technologies to conduct its operations. Therefore, to be effective, disaster recovery planning must specifically address policies and procedures for minimizing the disruption of government operations if computers or other advanced technologies are disabled following a disaster.

Policy

Belmont requires the formal establishment and regular update of written policies and procedures for minimizing disruptions resulting from failures in computers or other advanced technologies following a disaster.

Belmont's policy is subject to regular update and is shown in the Appendix.

Adoption Date: June 26, 2001	Policy Level: **2**

A4 Establishing Appropriate Capitalization Thresholds for Fixed Assets

Background

In the public sector, the term "fixed assets" typically is used to refer to land, buildings, equipment, and improvements other than buildings acquired by a government for use in the provision of goods or services to citizens. It is incumbent upon public-sector managers to maintain adequate control over all of a government's assets, including its fixed assets, to minimize the risk of loss or misuse.

Not all fixed assets are required to be reported on a government's balance sheet. Specifically, fixed assets with extremely short useful lives and fixed assets of small monetary value are properly reported as an "expenditure" or "expense" in the period in which they are acquired. Fixed assets that are reported on the balance sheet are said to be "capitalized." The monetary criterion used to determine whether a given fixed asset should be reported on the balance sheet is known as the "capitalization threshold." A government may establish a single capitalization threshold for all of its fixed assets or it may establish different capitalization thresholds for different classes of fixed assets.

Capitalization is, of its nature, primarily a financial reporting issue. That is to say, a government's principal concern in establishing specific capitalization thresholds ought to be the anticipated information needs of the users of the government's external financial reports. While it is essential to maintain control over all of a government's fixed assets, there exist much more efficient means than capitalization for accomplishing this objective in the case of a government's smaller fixed assets. Furthermore, practice has demonstrated that fixed asset systems that attempt to incorporate data on numerous smaller fixed assets are often costly and difficult to maintain and operate.

Policy

Belmont’s policy in establishing capitalization thresholds for fixed assets:

1. Fixed assets will be capitalized only if they have an estimated useful life of at least two years following the date of acquisition.
2. Fixed assets' capitalization thresholds are applied to individual fixed assets rather than to groups of fixed assets (e.g., desks, tables).
3. In no case will Belmont establish a capitalization threshold of less than $5,000, (or higher amounts as by the Finance Director), for any individual item.
4. In establishing capitalization thresholds, federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts shall be observed for purposes of federal reimbursement.

Belmont shall exercise control over noncapitalized fixed assets by establishing and maintaining adequate control procedures at the departmental level.

References

Government Fixed Asset Inventory Systems: Establishing, Maintaining and Accounting, Paul Glick, GFOA, 1987.

Adoption Date:
June 26, 2001

Policy Level:
2

A5 Establishment of Audit Committees

Background

The auditor of financial statements must be independent, both in fact and in appearance. A properly constituted audit committee helps to enhance the financial statement auditor's real and perceived independence by providing a direct link between the auditor and the governing board.

One important advantage of an audit committee is that it helps to facilitate communication between management, the auditors, and the governing board. An audit committee also limits the reliance governing bodies must place on the technical expertise of the independent auditor. An audit committee is useful, too, in helping to focus and document the government's process for managing the financial statement audit.

In recent years, the importance of audit committees has come to be recognized increasingly in both the public and private sectors. This importance is reflected in the requirement set by generally accepted auditing standards that auditors determine that the audit committee (or its equivalent) is informed of various matters of importance related to the financial statement audit.

The audit committee plays an advisory role to the governing body. Management and the governing board remain ultimately responsible for the fair presentation of the financial statements and for obtaining and monitoring the financial statement audit.

Policy

The Finance Commission shall serve as the Audit Committee for the City.

Role and Independence -

The Finance Commission assists the Council in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the City. The Commission is expected to maintain free and open communication with the independent accountants and the management of the City.

Responsibilities -

The Finance Commission's responsibilities include:

- Primary input into the recommendation to the Council for selection and retention of the independent accountant that audits the financial statements of the City. In the process, the Commission will discuss and consider the auditor's written affirmation that the auditor is in fact independent, will discuss the nature and rigor of the audit process, receive and review all reports, and will provide to the independent accountant full access to the Commission (and the Council) to report on any and all appropriate matters.

- Provision of guidance and oversight to the internal audit function of the City, including review of the organization, plans, and results of such activity.

- Review of financial statements with management and the independent auditor. It is anticipated that these discussions will include quality of Annual Report, review of reserves and accruals, consideration of the suitability of accounting principles, review of highly judgmental areas, audit adjustments whether or not recorded, and such other inquiries as may be appropriate.

- Discussion with management and the auditors of the quality and adequacy of the City's internal controls.

References

- The Audit Management Handbook, Stephen J. Gauthier, GFOA, 1989.
- Audit RFP Diskette, GFOA.
- Belmont City Code, Section 2-158 (3).

Adoption Date: June 26, 2001	Policy Level: **1**

A6 Governmental Accounting, Auditing, and Financial Reporting Practices

Background

A goal of the City Council has been to improve the quality of accounting, auditing, and financial reporting practices in government. A concern is that some governments still are not preparing financial statements in conformity with generally accepted accounting principles (GAAP) and that some governments do not obtain an independent audit of their financial statements conducted in accordance with generally accepted auditing standards (GAAS) or generally accepted government auditing standards (GAGAS).

Policy

Belmont reaffirms its strong support for governmental financial reporting based upon GAAP and annual independent audits of financial statements. The City of Belmont's officials have an obligation to strive for improved governmental financial reporting based upon GAAP and improved governmental auditing based upon GAAS or GAGAS. To meet this obligation, Belmont's policy is as follows:

1. Belmont maintains accounting systems that enable the preparation of financial statements presented in conformity with GAAP.
2. The City Council enact legislation requiring that Belmont's accounting systems be maintained so as to enable the preparation of financial statements presented in conformity with GAAP.
3. Belmont prepares and publishes a comprehensive annual financial report.
4. The financial statements of Belmont are prepared in conformity with GAAP.
5. The City Council enacts legislation requiring local governments to prepare financial statements in conformity with GAAP.
6. Belmont obtains an annual independent audit of their financial statements performed in accordance with GAAS or GAGAS.
7. The City Council enact legislation requiring Belmont to obtain an annual independent audit of their financial statements performed in accordance with GAAS or GAGAS.

References

- *The Audit Management Handbook*, Stephen J. Gauthier, GFOA, 1989.
- *An Elected Official's Guide to Fund Balance*, Stephen J. Gauthier, GFOA, 1989.
- *An Elected Official's Guide to Auditing*, Stephen J. Gauthier, GFOA, 1992.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*, Stephen J. Gauthier, GFOA, 1994.
- *Preparer's Guide to Note Disclosures*, Gregory S. Allison, GFOA, 1994.
- *An Elected Official's Guide to Internal Controls and Fraud Prevention*, Stephen J. Gauthier, GFOA, 1994.
- *An Elected Official's Guide to Financial Reporting*, Stephen J. Gauthier, GFOA, 1995.
- CAFRonMICRO Software, GFOA.
- *GAAFR Review* (GFOA Subscription Newsletter).
- Criteria for Certificate of Achievement for Excellence in Financial Reporting Program (GFOA Awards Program, GFOA Technical Services Center).
- Audit RFP Diskette, GFOA.

Adoption Date: June 26, 2001	Policy Level: **2**

A7 Preparing Popular Reports

Background

The scope of financial reports presented in conformity with generally accepted accounting principles (GAAP) is broad and data in those reports are usually presented at a high level of detail. Such comprehensive and detailed presentations are needed to meet the needs of decision-makers and to demonstrate compliance with legal requirements to oversight bodies and others. Annual financial reports issued in conformity with GAAP are essential if Belmont is to meet its obligation to be accountable to its citizens. Unfortunately, the comprehensiveness and level of detail found in many GAAP reports may confuse or discourage those unfamiliar with accounting and financial reporting.

Policy

Simpler, "popular reports" are designed to assist those who need or desire a less detailed overview of Belmont's financial activities. Such reporting can take the form of consolidated or aggregated presentations, or a variety of other formats. Belmont's policy for popular reports exhibit the following characteristics to be most effective:

1. The popular report should be issued on a timely basis, no later than six months after the close of the fiscal year, so that the information it contains is still relevant.
2. The scope of the popular report should be clearly indicated (i.e., the report should indicate from which funds and account groups data have been extracted).
3. The popular report should mention the existence of the CAFR for the benefit of readers desiring more detailed information.
4. If applicable, a clear notation and explanation should be provided of the fact that the measurement focus and basis of accounting underlying the data presented in the popular report differ from the measurement focus and basis of accounting used in the preparation of the CAFR.
5. The popular report should attract and hold readers' interest, convey financial information in an easily understood manner, present information in an attractive and easy-to-follow format and be written in a concise and clear style.
6. The popular report should avoid technical jargon to meet the needs of a broad, general audience and the report's message should be underscored, as appropriate, by photographs, charts, or other graphics.
7. The narrative should be used, as appropriate, to highlight and explain items of particular importance.
8. Comparative data should be used constructively to help identify trends useful in the interpretation of financial data.
9. Popular reports should be distributed in a number and manner appropriate to their intended readership (e.g., newspaper or magazine inserts, sample copies provided to libraries, sample copies provided to professional offices).
10. Popular report preparers should strive for creativity.
11. Users of popular reports should be encouraged to provide feedback.
12. Most important, the popular report should establish its credibility with its intended readers by presenting information in a balanced and objective manner.

References

- *GAAFR Review* (GFOA Subscription Newsletter).
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*, Stephen J. Gauthier, GFOA, 1994.
- Criteria for Popular Annual Financial Reporting Awards Program (GFOA Awards Program, GFOA Technical Services Center).
- *An Elected Official's Guide to Financial Reporting*, Stephen J. Gauthier, GFOA, 1995.

Adoption Date: June 26, 2001	Policy Level: **2**

A8 Presenting Budget to Actual Comparisons Within the Basic Financial Statements

Background

Generally accepted accounting principles (GAAP) traditionally have required that the City of Belmont present as part of their basic audited financial statements a budget to actual comparison statement. This treatment has provided the essential link between the legal budget and GAAP financial reporting, which has served to enhance the credibility of both. During the Governmental Accounting Standards Board's (GASB) financial reporting model project, the City Council adopted a policy statement urging the GASB to retain the budget to actual comparisons as a basic financial statement.

In 1999, the GASB issued Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, which established a new financial reporting model for the City of Belmont. GASB Statement No. 34 will henceforth allow Belmont to choose to present mandated budgetary comparisons either as part of the basic audited financial statements or as "required supplementary information" (RSI). By definition, RSI does not fall within the scope of the independent audit of the financial statements, although auditors are required to perform certain limited procedures in connection with RSI.
Adherence to the budget is of paramount importance to the majority of Belmont's stakeholders. Indeed, most of Belmont's key decisions are based in one form or another upon the budget. Given the importance attached to the budget, it is essential that stakeholders be provided reasonable assurance that Belmont has maintained budgetary compliance.

Policy

Belmont's policy shall be to present budgetary comparisons as part of their audited basic financial statements. The retention of the budget to actual comparison as a basic financial statement ensures that the strong link that has existed between the budget and financial reporting in the past will continue to enhance the credibility of both in the future.

Adoption Date: June 26, 2001	Policy Level: **2**

A9 The Need for Periodic Inventories of Fixed Assets

Background

In the public sector, the term "fixed assets" is used to describe land, buildings, equipment, and improvements other than buildings used in the provision of goods or services to citizens. It is essential that Belmont establishes and maintains appropriate inventory systems for their capitalized fixed assets. Such systems are needed to protect fixed assets from the danger of loss or misuse.

Belmont has installed "periodic" inventory systems to maintain effective control over their fixed assets. Periodic inventory systems are updated to reflect additions and deletions of fixed assets, at the end of the accounting period.

Policy

Belmont's policy is to perform a physical inventory of its capitalized fixed assets, either simultaneously or on a rotating basis, so that all of Belmont's fixed assets are physically accounted for at least once every five years. While well designed and properly maintained inventory systems can mitigate the need for an annual inventory of Belmont's fixed assets, no inventory system is so reliable as to eliminate completely the need for a periodic physical inventory of Belmont's fixed assets.

References

- *Government Fixed Asset Inventory Systems: Establishing, Maintaining and Accounting*, Paul Glick, GFOA, 1987.

Adoption Date:
June 26, 2001

Policy Level:
2

A10 Using the Comprehensive Annual Financial Report to Meet SEC Requirements for Periodic Disclosure

Background

Securities and Exchange Commission (SEC) Rule 15c2-12 requires Belmont, in a written agreement or contract for the benefit of holders of securities to provide certain annual financial information to various information repositories. Rule 15c2-12 does not establish a standardized format for the presentation of periodic financial disclosures. Rather, the required annual financial information may be presented through any disclosure document or set of documents, whatever their form or principal purpose, that include the necessary information. The appropriate means of meeting periodic disclosure requirements is determined by Belmont in consultation with appropriate legal counsel.

Policy

City Council requires Belmont to prepare and publish a comprehensive annual financial report (CAFR) and recognizes that a CAFR is an appropriate disclosure document for providing information useful to existing and potential investors in the secondary market and meeting Belmont's obligation to provide periodic disclosure for the secondary market, as required by Rule 15c2-12. The following specific recommendations are offered for the benefit of those who elect to use the CAFR for this purpose:

1. The undertaking should commit Belmont to the periodic disclosure of specified annual financial information as provided in the amendments to Rule 15c2-12, rather than to the periodic issuance of a CAFR.
2. Tables providing quantitative data on activities that mirror the initial offering statement may be reported in a discrete portion of the statistical section of the CAFR. Alternatively, any such data that ordinarily are reported in the statistical section of the CAFR may continue to be presented in their usual place within that section, provided that the letter of transmittal clearly indicates the location of the data.
3. Explanatory narrative regarding data on activities should be presented with the tables themselves in the statistical section of the CAFR or separately in the letter of transmittal. This latter option should only be employed if the narrative would be of interest to most users of the report.
4. For debt secured by specific revenue sources, a separate financial report of the department, fund, or component units responsible for repayment may be issued. Alternatively, supplemental schedules could be included within the CAFR of the overall financial reporting entity.
5. For debt expected to be repaid from specific revenue sources, but backed by the full faith and credit of Belmont, either the CAFR of the overall financial reporting entity or a separate financial report of the department, fund, or component unit responsible for repayment could be used to meet periodic disclosure requirements.
6. Periodic annual financial information on general obligation debt may be incorporated in the CAFR of the overall financial reporting entity.

References

- *GFOA-NACo Videotape on SEC Disclosure Requirements, 1996.*
- *SEC Rule 15c2-12 Reference Guide,* GFOA, 1995.
- *Disclosure Guidelines for State and Local Government Securities,* GFOA, 1991.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR),* Stephen J. Gauthier, GFOA, 1994.

Adoption Date: June 26, 2001	Policy Level: **2**

A11 Use of the Modified Approach to Account for Infrastructure Assets

Background

The Governmental Accounting Standards Board (GASB) allows the City of Belmont to use the modified approach to account for qualifying networks or subsystems of infrastructure assets. Under the modified approach, infrastructure is treated as an inexhaustible capital asset, thereby eliminating the need for depreciation accounting. To qualify to use the modified approach, governments must demonstrate that networks or subsystems of infrastructure assets are being maintained at a selected condition level.

Policy

Belmont considers the following factors in the process of deciding whether to use depreciation accounting or the modified approach for a given network or subsystem of infrastructure assets:

- ***Usefulness of data for managerial purposes***. The modified approach provides information on capital assets that clearly is of value for the budget process and for asset management purposes. It also has the advantage of avoiding the costs associated with the depreciation of infrastructure assets.
- ***Potential impact of prospective depreciation.*** There is a de facto "penalty" on governments that choose the modified approach but later convert to depreciation accounting, either by choice or necessity (i.e., failure to achieve targeted condition levels). Specifically, governments making the conversion to depreciation accounting are required to depreciate the full cost of the network or subsystem over its estimated *remaining* service life (i.e., *prospective* application of depreciation as a change in accounting estimate). Consequently, a change to depreciation accounting late in the life of a network or subsystem of infrastructure assets could result in elevated levels of annual depreciation expense for an extended period (See Exhibit 1).
- ***Inherent capital bias.*** As just noted, the modified approach creates a de facto accounting "penalty" for governments that fail to maintain their infrastructure assets at selected condition levels. No such penalty applies, however, for failure to adequately fund other essential services. This disparity in treatment creates an inherent bias in favor of capital-related outlays. As a result, the use of the modified approach could distort the process used by governments to set budget priorities.
- ***Unmatched debt.*** Under regular depreciation accounting, capitalizable improvements include expenditures that either 1) lengthen the useful life of a capital asset or 2) increase the efficiency or effectiveness of a capital asset. If a government selects the modified approach, however, only the second type of improvement may be capitalized. Consequently, a major, debt-financed project designed to lengthen the life of a network or subsystem of infrastructure assets accounted for using the modified approach would result in a government's reporting a significant liability with no corresponding asset related to the construction. Furthermore, the debt would be included as part of the calculation

of *unrestricted net assets* rather than as part of the calculation of *invested in capital assets net of related debt*, which could produce a deficit balance in *unrestricted net assets.*

- ***Reliance upon interested parties.*** It is to be expected that officials responsible for maintaining infrastructure assets will play a major role in selecting condition level targets and in performing condition assessments. As a result, those with the greatest interest in encouraging infrastructure investment are in a unique position to promote that agenda.
- ***Decreased comparability.*** The use of the modified approach decreases the comparability of cost data among governments.

Belmont will take into consideration all of these factors in making a balanced and informed decision regarding use of the modified approach for a given network or subsystem of infrastructure assets.

Exhibit 1

Effect of Converting from the Modified Approach to Depreciation Accounting

Assume that two governments each construct the same type of infrastructure subsystems at a total cost of $40 million. Further assume that Government A chooses to use depreciation accounting (estimated useful life of 40 years), whereas Government B elects to use the modified approach. Finally, assume that Government B fails to maintain targeted condition levels at the end of 30 years and therefore must convert to depreciation accounting for the remaining estimated useful life of the asset (i.e., 10 years). Depreciation expense for the two governments would be as follows:

	Depreciation Expense	
Period	Government A	Government B
Years 1-30	$1 Million/year	$0/year
Years 31-40	$1 Million/year	$4 Million/year
Total 40 years	$40 Million	$40 Million

References

- *None given.*

Adoption Date:
June 24, 2003

Policy Level:
2

A12	Improving the Effectiveness of Fund Accounting

Background

One important objective of external financial reporting is to help users assess accountability by "assisting in determining compliance with finance-related laws, rules, and regulations." To achieve this goal, state and local governments organize and operate their accounting systems on a fund basis.

State and local governments frequently establish a large number of "funds" for internal accounting purposes. Having internal "funds" often are useful or necessary to provide the level of detail needed to ensure and demonstrate legal compliance. In this regard, however, the goals of accounting differ somewhat from the objectives of financial reporting. Whereas an accounting system must collect <u>all</u> of the data needed to ensure and demonstrate legal compliance, financial reporting should be concerned only with those aspects of compliance that are of important to users of <u>general purpose</u> external financial reports. Consequently, not every internal "fund" should automatically be classified as a fund for purposes of external financial reporting.

As specifically noted in the authoritative accounting and financial reporting standards, the use of unnecessary funds for financial reporting purposes can "result in inflexibility, undue complexity, and inefficient financial administration." Accordingly, those same authoritative standards state that, "only the minimum number of funds consistent with legal and operating requirements should be established." Unfortunately, many state and local governments continue to report more funds in their comprehensive annual financial report than are truly necessary to achieve the goals of general purpose external financial reporting, thereby needlessly adding to the length and complexity of that report and potentially increasing audit fees.

Policy

The City of Belmont's criteria for determining whether a given internal "fund" should be classified and reported as an individual *fund* in the government's comprehensive annual financial report (CAFR) are as follows:

Whenever it is possible to do so without sacrificing the goals of fund accounting, similar internal "funds" shall be considered for combination into a single *fund* for external financial reporting purposes. For example:

- When there are numerous debt issues outstanding, a single debt service fund could be used in many instances for all of the smaller debt issues
- If there are numerous capital projects, the City of Belmont may wish to consider

combining their less significant projects into a single capital projects fund.

- Grants for similar purposes (e.g., special education) could be combined into a single special revenue fund. In many cases, activities now reported in a separate fund in the CAFR might better be included as part of the general fund.[1]
- The City of Belmont may limit its use of internal service fund accounting to situations where the difference on charges to other funds between accrual and modified accrual accounting is expected to be significant.

Belmont should periodically[2] undertake a comprehensive evaluation of its fund structure to ensure that individual *funds* that have become superfluous are eliminated as such from the CAFR[3]. Elected officials should be educated to the fact that accountability may be achieved effectively and efficiently in many instances solely by the use of internal "funds".

References

- Governmental Accounting Standards Board (GASB), Concepts Statement No. 1, *Objectives of Financial Reporting*.
- National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*.

Adoption Date:
June 22, 2004

Policy Level:
2

[1] "The general fund is the chief operating fund of a state or local government. GAAP prescribe that the general fund be used 'to account for all financial resources except those required to be accounted for in another fund.' That is, it is presumed that all of a government's activities are reported in the general fund unless there is a compelling reason to report an activity in some other fund type." *Governmental Accounting, Auditing, and Financial Reporting.*

[2] The periodic comprehensive evaluation of a government's fund structure should not occur so frequently so as to disrupt the continuity of that structure. Thus, while a comprehensive evaluation should occur at a regular, predetermined interval, that interval normally would be expected to be longer than one year.

[3] For example, a fund that originally was established to account for what was once a significant grant program that has since become relatively insignificant.

A13 Voluntary Presentation of Management's Discussion and Analysis

Background

The Governmental Accounting Standards Board (GASB) introduced the notion of management's discussion and analysis (MD&A) to the public sector in GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. The purpose of MD&A is to "provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions." The GASB has clearly mandated that MD&A accompany the separately issued basic financial statements of any financial reporting entity or component unit. To date, however, authoritative accounting and financial reporting standards have not specifically addressed the contents of separately issued financial reports of units that are not legally separate (e.g., departmental reports and reports of individual funds). Consequently, there is no authoritative basis for extending GASB's mandate to present MD&A to such reports. Because authoritative accounting and financial reporting standards have not specifically addressed the contents of the separately issued financial reports of units that are not legally separate, there has been considerable confusion regarding whether MD&A should, in fact, be included in such reports. It would appear that the presentation of MD&A would benefit the users of departmental reports, individual fund reports, and similar reports, just as it does the users of the report of a financial reporting entity and the separately issued reports of component units.

Policy

MD&A may be presented in conjunction with departmental reports, individual fund reports, and similar reports. If MD&A are presented voluntarily, their contents should be closely modeled on the requirements for MD&A set forth in GASB Statement No. 34 and tailored to the reporting unit's specific circumstances. MD&A that are presented voluntarily should properly be classified in such cases simply as *supplementary information* rather than as *required supplementary information*. All the same, they should still precede rather than follow the basic financial statements and required supplementary information. Financial statement preparers are encouraged to label MD&A that is presented as voluntarily as "unaudited" to avoid confusion with those portions of the financial section of a comprehensive annual financial report that receive "in-relation-to" coverage from the independent auditor.[1]

Adoption Date: June 22, 2004	Policy Level: 2

[1] There would be no need to label the MD&A as "unaudited" if the independent auditor agreed to extend the same "in-relation-to" coverage to MD&A as to other supplementary information in the financial section.

A14	Enhancing Management Involvement with Internal Control

Background

GFOA's Code of Professional Ethics requires of finance officers as part of their responsibility as public officials, to "exercise prudence and integrity in the management of funds in their custody and in all financial transactions." GFOA's Code of Professional Ethics also requires of finance officers in connection with the issuance and management of information that they "not knowingly sign, subscribe to, or permit the issuance of any statement or report which contains any misstatement or which omits any material fact." Both provisions presume the existence of a sound framework of internal control:

- *Prudence in the management of public funds requires that there be adequate control procedures in place to protect those funds.*
- *A sound framework of internal control is necessary to afford a reasonable basis for finance officers to assert that the information they provide can be relied upon.*

While a government's independent auditors and similar outside parties often provide valuable assistance to management in meeting its internal-control-related responsibilities, their contribution can never be a substitute for management's direct and informed involvement with internal control.

Ultimately, it is the responsibility of appropriate elected officials to ensure that the managers who report to them fulfill their responsibility for implementing and maintaining a sound and comprehensive framework of internal control.

Policy

The City of Belmont's Financial managers should obtain the information and training needed to meaningfully take responsibility for internal control. In particular, they should obtain a sound understanding of the essential components of a comprehensive framework of internal control as set forth by the Council of Sponsoring Organizations (COSO) of the Treadway Commission on Fraudulent Financial Reporting in the publication *Internal Controls—Integrated Framework*. They also should ensure that all employees responsible in any way for internal control receive the information and training they need to fulfill their particular responsibilities.

Internal control procedures over financial management should be communicated. Internal control procedures should include some practical means for lower level employees to report instances of management override of controls that could be indicative of fraud.

The City of Belmont's financial managers should periodically evaluate relevant internal control procedures to satisfy themselves that those procedures 1) are adequately designed to achieve their intended purpose, 2) have actually been implemented, and 3) continue to function as designed. Evaluations should also encompass the effectiveness and timeliness of the City of Belmont's response to indications of potential control weaknesses generated by internal control procedures (e.g., resolution of items in exception reports).

In addition, upon completion of any evaluation of internal control procedures, the City of Belmont's financial managers should determine what specific actions are necessary to remedy any disclosed weaknesses. When part of a financial audit, a corrective action plan with an appropriate timetable should be adopted. There should be follow-up on the corrective action plan to ensure that it has been fully implemented on a timely basis.

Adoption Date: June 22, 2004	Policy Level: **2**

City of Belmont Financial Policies

BUDGETING AND FINANCIAL MANAGEMENT

B1 Financial Forecasting in the Budget Preparation Process

Background

The National Advisory Council on State and Local Budgeting (NACSLB) has endorsed the forecasting of revenues and the forecasting of expenditures in their Recommended Budget Practices. The City Council recognizes the importance of combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast. Belmont should have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals. A key component in determining future options, potential problems, and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting does the following:

- *Provides an understanding of available funding;*
- *Evaluates financial risk;*
- *Assesses the likelihood that services can be sustained;*
- *Assesses the level at which capital investment can be made;*
- *Identifies future commitments and resource demands; and*
- *Identifies the key variables that cause change in the level of revenue.*

Policy

Belmont's budget shall include a forecast of major General fund revenues and expenditures including subsidy funds. The forecast will extend at least three to five years beyond the budget period. The forecast, along with its underlying assumptions and methodology, will be clearly stated and made available to participants in the budget process. It will also be referenced in the final budget document. To improve future forecasting, staff should analyze the variances between previous forecast and actual amounts. The variance analysis should consider the factors that influence revenue collections, expenditure levels, and forecast assumptions. The forecast shall include a fund balance calculation and any difference from established reserve levels.

References

- *Recommended Budget Practices*: *A Framework for Improved State and Local Government Budgeting*, NACSLB, 1998.
- *Recommended Budget Practices* CD-ROM, NACSLB, 1998.
- *Budget Awards Program: Illustrations and Examples of Program Criteria,* Juliet Carol Powdar, GFOA, 1999.

Adoption Date:
June 26, 2001

Policy Level:
2

B2 Service Efforts and Accomplishments (SEA) Performance Measures

Background

A key responsibility of the City of Belmont is to develop and manage programs, services, and their related resources as efficiently and effectively as possible and to communicate the results of these efforts to the stakeholders. Performance measurement when linked to the budget and strategic planning process can assess accomplishments on an organization-wide basis. When used in long-term planning and goal setting process and linked to Belmont's mission, goals, and objectives, meaningful performance measurements assist Belmont officials and citizens in identifying financial and program results, evaluating past resource decisions, and facilitating qualitative improvements in future decisions regarding resource allocation and service delivery.

Policy

Belmont will develop performance measures and use them as an important component of long term strategic planning and decision making and will be linked to budgeting. Belmont's performance measures should:

1. Be based on program goals and objectives that tie to a statement of program mission or purpose.
2. Measure program outcomes.
3. Provide for resource allocation comparisons over time.
4. Measure efficiency and effectiveness for continuous improvement.
5. Be verifiable, understandable, and timely.
6. Be consistent throughout the strategic plan, budget, accounting and reporting systems and to the extent practical be consistent over time
7. Be reported internally and externally.
8. Be monitored and used in managerial decision-making processes.
9. Be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs.
10. Be designed in such a way to motivate staff at all levels to contribute toward organizational improvement.

Belmont will utilize performance measures as an integral part of the budget process. Over time, performance measures should be used to report on the outputs and outcomes of each program and should be related to the mission, goals, and objectives of each department. Belmont will strive to:

1. Develop a mission statement for its service delivery units by evaluating the needs of the community.
2. Develop its service delivery units in terms of programs.
3. Identify goals, short and long-term, that contribute to the attainment of the mission.
4. Identify program goals and objectives that are specific in timeframe and measurable to accomplish goals.
5. Identify and track performance measures for a manageable number of services within programs.
6. Identify program inputs in the budgeting process that address the amount of

resources allocated to each program.

7. Identify program outputs in the budgeting process that addresses the amount of service units produced.
8. Identify program efficiencies in the budgeting process that addresses the cost of providing a unit of service.
9. Identify the program outcomes in the budgeting process that addresses the extent to which the goals of the program have been accomplished.
10. Take steps to ensure that the entire organization is receptive to evaluation of performance.
11. Integrate performance measurements into the budget that at a minimum contains by program the goals and input, output, efficiency, and outcome measures.
12. Calculate costs and document changes that occur as a direct result of the performance management program in order to review the effectiveness of the performance management program.

As Belmont gains experience, more detailed information should be developed and a variety of performance measure to report on program outcomes should be used. These measures should be linked to the goals of the programs and the missions and priorities of the organization. Belmont should:

1. Ensure that the benefits of establishing and using performance measures exceed the resources required to establish performance measures.
2. Develop multiyear series of efficiency indicators to measure the efficiency of service delivery within programs.
3. Develop multiyear series of quality or outcome indicators to measure the effectiveness of service delivery (are accomplishments being met?) within programs.
4. Develop a mechanism to cost government services
5. Analyze the implications of using particular measures for decision making and accountability.
6. Use customer or resident satisfaction surveys.
7. Adopt common definitions of key efficiency and effectiveness performance measures to allow intergovernmental comparisons.
8. Develop, measure, and monitor more detailed information within programs
9. Develop common or improved approaches to utilization of financial and non-financial performance measures in making and evaluating decisions.
10. Use community condition measures to assess resident needs that may not be addressed by current programs.
11. Develop and periodically review supportable targets for each performance measure
12. Evaluate the data to use in long term resource allocation and budget decisions for continuous improvement
13. Utilize performance information in resource allocation decisions and report the efficiency and effectiveness and the extent to which the program goals have been accomplished.

There are several objectives that have been used in the design of the Belmont Service Delivery Initiative. They are:

1. To assist the City Council in making more informed resource allocation decisions.

The annual budget should have clear and understandable information as to the level and quality of services that should be expected for a given level of funding. Priorities should be able to be more clearly articulated as well as the effects of potential resource increases or decreases.

2. To assist staff to more sharply focus on the services desired and to serve as the foundation for continuous improvement.
   With clearly articulated desired service results, staff is better able to focus its attention on them. There is clarity of direction. It is clear where improvement efforts should be focused. Ideally, staff should be given reasonable flexibility to enable them to improve services over time.

3. To enhance periodic monitoring and reporting.
   Without a clear articulation of expected services it is difficult to monitor how well services are being provided or to periodically report on performance to the City Council and community. While financial reporting will remain important, there should also be an ability to report on service performance.

4. To conform to emerging Governmental Accounting Standards Board (GASB) recommendations and possible requirements, and to minimize modifications required to the City's budgeting and accounting software.
   GASB, a national accounting standards setting organization, strongly recommends a "service efforts and accomplishments" approach to governmental budgeting. Some believe this may ultimately results in new mandatory requirements.
   To the degree possible, implementation should not require expensive and time-consuming system modifications.

5. To provide for a flexible and expandable "architecture."
   There are a variety of different ways that program budgets can be developed. The method chosen should be adaptable and flexible to future needs, minimizing the need for resources to be spent for major revamping in the future.

Using the objectives outlined above, a revised budget format has been developed. Traditional municipal budgeting is organized by function. The recommended format organizes the budget by service (this will be referred to as a budgetary program). Two levels are outlined for budgetary programs for reasons outlined below.

The first and highest level in the budget has been termed the **Service Area**. The Service Area budget has several components. They are:

1. Service Group
   The Service Group represents the broad service classification that a particular budget program is a part of. This allows summarization so that the total cost for that classification can be known. With the example given, police services is a part of a broader classification of public safety services which also would include fire services.

2. Service Area

The Service Area designates what broad service is reflected in a particular budget program. The example given is for police services. As noted above, the Service Area will often follow the present way functions are organized, but not always. Because the focus is on services and not the present department/division structure, there may be occasions where a Service Area includes part of multiple departments and divisions.

3. Service Area Mission
The Service Area mission is a concise, high-level statement. It addresses the questions of why a particular service area exists and how, in general, it delivers the service. Purpose or mission statements are not unusual in municipal budgets. The Service Area Mission, however, is crucial to a sound program budget. It must be thought through very carefully. While the why portion need not be lengthy, it must be precise and descriptive. It must fundamentally answer the question of why this service area exits not what the service is. Each word must be carefully selected as they will be later be used to express expected service results in the form of measures. The how portion must also be carefully crafted to reflect the main themes of services rather than a list of specific tasks undertaken.

4. Service Area Measures
Service Area measures represent the high level results which the Service Area is expected to provide for a given level of funding. It answers the question of how much or how well the service is to be provided. The areas to measure flow directly from the Service Area Mission. Measures are established which will help gauge and guide how well the service is being provided.
It is important to note that the measures are final result or "outcome" oriented. They do not describe how the result is obtained but rather what the desired result is. This is a central concept of the approach being recommended. There are a variety of ways to accomplish a result being sought and methods may change over time. By specifying the result, staff is able to more flexibly use the resources allocated rather than being married to what has always been done.

A measure has two main parts. The first part is the words used to describe the expected level of service or result. The wording in measures should be based on what staff has reasonable control over. The second part is the value or number used in the measure. An example of a measure is: "A traffic collision ratio per million miles traveled of no greater than 2.8 is achieved." In this instance 2.8 represents the value or number. This measure is not drawn out of thin air. Rather it is selected in order to judge how well at least a portion of the Service Area Mission is performed. The measure value should be determined by establishing a base year of actual data. It should not be a goal or target. Essentially the value describes what is accomplishable with the resources presently allocated. Therefore, staff should generally be expected to perform at least that well if resources remain the same. As a part of the annual budget process there may be a desire by Council to quickly increase the level of service. The value of the measure would then be commensurately increased. During times of budget reduction, the value would be reduced to that which can be accomplished with the new level of funding.

Outside of the budget process staff would have a focus on these measures as the primary targets for improvement activities. As the value of various measures improve over time due to these efforts, those improvements would be reflected by changing values in a particular measure. For example, if due to revised strategies in the Police Department the collision ratio is reduced, a new value or standard may be reflected in a subsequent budget.

It is suggested that there be one standard measure for all Service Area programs, the budget/cost ratio. This provides a simple measure of how well a Service Area has stayed within its budgetary allocation. Where possible and useful, very broad efficiency measures are also suggested. Without detailed full cost accounting, however, the use of efficiency measures is substantially restricted.

5. Weights
   Weights provide a simple way of indicating the importance of particular measures and therefore the services they represent. A simple range of 1-5 is recommended with 5 being the highest available number. All measures are important or they should not be in the Service Area program, but different levels of importance provide addition direction to staff. Additionally, weights permit a year-to-year representation of how a Service Area is doing in aggregate.

6. Index
   An index is a means to reflect how well things are doing over time. It can be developed in a simple non-time consuming manner and yet provide very useful information. An index is derived from the value or number in a particular measure. All indices start at 100 reflecting their base year value. In the example above, the first year data is collected the collision rate was 2.8, or an index of 100. Because police staff know that this is a Council priority to focus on they explore different ways to reduce this rate. Let's say three years from now as a result of those efforts the ratio is 2.5. This represents an 11% improvement and therefore the index for this measure is now 111.

7. Aggregate Service Performance
   Using the weights and indices for each measure in a Service Area an aggregate performance summary can be depicted. It is the same method used in establishing the Consumer Price Index. This provides Council, public and staff a ready reference for service accomplishment over time.

8. Budget
   The total dollars to accomplish this service to the standard provided for is outlined. This becomes the budget authorization and expenditure control number. Staff would then have reasonable flexibility to use the resources in such a way as to maximize results. Control over the details of expenditures is replaced with accountability for specified results.

The second and more detailed level of the budget is termed the **Service Center**. The Service Center permits more detailed specification of service and more finite assignment of responsibility. The Service Center often directly relates to functions assigned at the division level. The Service Center portion of the budget is organized similarly to the Service Area, but at a more detailed level. In addition, it contains additional elements allowing the specification of end-product work activities and therefore outputs. Service Center components are:

1. Service Center
   The Service Center is the subdivision of the Service Area being addressed. For example, Service Centers for Police Services might include Patrol, Investigations, and Emergency Communications. Service Centers may not be needed, at least initially, with all Service Area programs.

2. Service Center Purpose
   The Service Center purpose is based on essentially the same format as the Service Area Mission except that it is specific to the function of traffic safety. It addresses the questions of why a particular Service Center exists and how, in general, it delivers the service.

3. Service Center Measures
   Service Center measures have the same purpose and are developed in the same fashion as Service Area measures. There will normally only be one or perhaps two critical measures at the Service Area level dealing with a Service Center. At the Service Center level, greater delineation of measures is possible. Ultimately each Service Center is present to support the Service Area mission, therefore measures should be selected carefully with this purpose in mind. At the Service Center level measures assist in focusing the efforts of a Service Center manager and work team. Please note that that weights and indices are not shown at this level. This is the case for several reasons. First, flexibility for those providing services is desirable, particularly at this level. After all, the ultimate objective is to meet the Service Area mission and measures, not those at the Service Center level. Second, the budget approach should be no more complex than necessary. Weights and indices can be added at a later time if desired. Third, performance against the measures will still be tracked and used for internal management purposes.

4. Activities and Outputs
   It is highly desirable to track end-product oriented activities. End-product activities are those that result in an ultimate product or service. For example, there are many steps needed to investigate a traffic accident, but an activity captures only the final result, an accident investigated. At this level outputs can then be captured, in this case the number of accidents investigated. This provides Council and management important information regarding the volume of activity. Volume can have a significant effect on overall levels of service and resource requirements. Additionally, it provides an accounting mechanism which may be needed when a Service Area and Service Center includes resources from more than one department or fund. Ultimately, it provides a basis for full cost accounting and therefore efficiency measurement, if that is deemed desirable. Initially, however, full cost accounting is not recommended as it could require very costly enhancements to the accounting system and would dramatically add to staffs data gathering requirements. Activities and outputs may not be needed, at least initially, with all Service Centers.

5. Budget
   The summary budget amount for each Service Center is shown. This sum is shown for informational purposes as the key budget control is at the Service Area.

In conclusion, Belmont recognizes that the value of a performance measurement program is derived through positive behavioral change. Stakeholders at all levels must embrace the concept of continuous improvement and be willing to be measured against objective expectations. Belmont recognizes that establishing a receptive climate for performance measurement is as important as the measurements themselves.

References

- *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting, NACSLB, 1998.*
- *Recommended Budget Practices CD-ROM, NACSLB, 1998.*
- *NACSLB's recommended practices located on GFOA's Web site at _hyperlink "http://www.gfoa.org" __www.gfoa.org_.*
- *Research Report—The Use of Performance Measures in City and County Governments, Patricia Tigue and Dennis Strachota, GFOA, 1994.*
- *Implementing Performance Measurement in Government: Illustrations and Resources, Joni Leithe, GFOA, 1997.*
- *GFOA Performance Management Initiative Adopted by Executive Board, March 2001.*

Adoption Date:	Revision Date:	Policy Level:
June 26, 2001	June 25, 2002	**2**

B3 Privatization and Competition Initiatives

Background

Privatization refers to a broad range of service delivery approaches by which government increases the role of the private sector in the provision and/or production of a service. Some of the privatization approaches used by the City of Belmont include contracting-out, outsourcing and, franchises. One form of privatization, competition initiatives or "managed competition" generally seeks to improve Belmont's performance by having agencies compete with private and non-profit organizations. Under managed competition, the resulting service arrangement may split the total production of a service between the City of Belmont and private/non-profit contractors or award the contract to a single service producer.

Jurisdictions considering privatization and competition initiatives must consider a number of policy, financial, human resource and administrative issues involved in the evaluation, negotiation, execution and monitoring of the service delivery arrangement.

Policy

The City Council recommends that Belmont systematically identify and evaluate the major implications in considering a privatization initiative.

Policy issues include:
1. Impact on stakeholders, including citizens, customers, and other cities.
2. Confirming or obtaining the legal authority to undertake the initiative.
3. Setting expectations and standards for what an initiative should accomplish.
4. Assessing the impact of Internal Revenue Service private-activity bond regulations and any other legal restrictions affecting the proposed privatization or competition effort.
5. Assessing if there is an adequate level of competition in the marketplace regarding the service under consideration for privatization.

Financial issues may include:
1. Develop a methodology for assessing current and future costs of service under government-operated (in-house) scenarios and alternative (privatization) scenarios.
2. Determining the financial impact on user fees and rates.
3. Analyzing the financial and legal impact on outstanding debt and estimating costs for debt redemption or defeasance.
4. Assessing the implications regarding facilities constructed or services paid from grants or other restricted funding sources.
5. Calculating the cost of professional services for technical, legal and financial advice to assist in the evaluation.
6. Identifying Belmont's ongoing administrative costs and staffing requirements to monitor the contractor.
7. Determining utilization of net proceeds of asset sales or other financial benefits.

Human Resource issues may include:
1. Determining issues associated with employment law compliance, existing labor agreements and employee impact.
2. Analyzing options for current employees, including but not limited to, requiring the contractor to hire the current workforce, retraining current employees for reassignment, or providing appropriate outplacement services.
3. Negotiations with contractors to potentially hire existing employees as part of the transaction.

Administrative issues may include:
1. Designating responsibility for compliance with existing health, safety or environmental requirements.
2. Assessing the long-term capability of a contractor to fulfill the agreement.
3. Understanding the continuing liabilities of Belmont and the contractor in the project.
4. Providing stakeholders with accessible and timely information on progress being made with the privatization effort.
5. Determining the level of control Belmont will retain after the agreement is finalized and Belmont's ongoing ability to control costs.
6. Providing for an effective monitoring of the contract including service levels, rate levels and the ability of Belmont to directly perform the function once again.
7. Assessing the level of competition remaining in the marketplace to ensure that negotiations for renewal of the contract will not be taking place with a local or regional monopoly.

   Privatization and competition are complex issues that no single policy can entirely address. This policy is intended to provide general guidance on the concepts of privatization and competition.

References

- *Research Foundation—Privatization*

Adoption Date: June 26, 2001	Policy Level: **2**

B4 Providing an Executive Summary of the Budget

Background

The budget is one of the most important documents the City of Belmont prepares since it identifies the services to be provided and how the services are to be financed. Because of the time required to read and understand the entire budget document, an executive summary and guide to the key issues and aspects of the budget is valuable to ensure the education and involvement of the public.

Policy

Belmont's budget shall include an executive summary and guide to the key issues and aspects of the operating and capital components of the budget to ensure the education and involvement of the public. A summary should be publicly available.

The executive summary can be provided in many formats and can vary in size, scope, and level of detail. It may include one or more of the following: a transmittal letter, a budget message, and a budget-in-brief. At a minimum, the executive summary will do the following:

1. Summarize the major changes in priorities or service levels from the current year and the factors leading to those changes.
2. Articulate the priorities and key issues for the new budget period.
3. Identify and summarize major financial factors and trends affecting the budget, such as economic factors; long-range outlook; significant changes in revenue; current and future debt obligations; and significant use of or increase in fund balance or retained earnings.
4. Provide financial summary data on revenues, and expenditures for at least a three-year period, including prior year actual, current year budget and/or estimated current year actual, and proposed budget.
5. Define a balanced budget and describe Belmont's requirements for balancing the budget. State if the budget is balanced or not. If the budget is not balanced, explain why not.

References

- Criteria for Distinguished Budget Presentation Awards Program, (GFOA Awards Program, GFOA Technical Services Center).
- *Best of Governmental Budgeting*, Dennis Strachota, GFOA, 1994.

Adoption Date:
June 26, 2001

Policy Level:
2

B5 National Advisory Council on State and Local Budgeting (NACSLB) Budget Practices

Background

The City of Belmont makes program and service decisions and allocates resources to programs and services through the budget process. As a result, the budget process is one of the most important activities undertaken by Belmont. The quality of decisions resulting from the budget process and the level of their acceptance depends on the budget process that is used.

The National Advisory Council on State and Local Budgeting (NACSLB) developed a set of recommended practices in the area of state and local budgeting.

Policy

Belmont endorses the work of the NACSLB, including the NACSLB's definition, mission, and key characteristics of the budget process, stated as follows:

Definition of the Budget Process: The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

Mission of the Budget Process: To help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.

Key Characteristics of the Budget Process:

- Incorporates a long-term perspective;
- Establishes linkages to broad organizational goals;
- Focuses budget decisions on results and outcomes;
- Involves and promotes effective communication with stakeholders;
- Provides incentives to Belmont's management and employees.
- Brief analysis discussing the current financial status, the immediate future status, and long-term trends.

Given the evolving nature of good budgeting and management, these NACSLB practices are not intended as mandatory prescriptions for Belmont. Rather, they are recommendations that provide a blueprint for Belmont to make improvements to their budget processes. Implementation of these practices is expected to be an incremental process that will take place over a number of years.

References

- NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.
- NACSLB's Practices located on GFOA's web site at www.gfoa.org.
- *Budget Awards Program: Illustrations and Examples of Program Criteria*, Juliet Carol Powdar, GFOA, 1999.

B6 Relationship Between Budgetary and Financial Statement Information

Background

The term "basis of accounting" is used to describe the timing of recognition, that is, when the effects of transactions or events should be recognized. The basis of accounting used for purposes of financial reporting in accordance with generally accepted accounting principles (GAAP) is not necessarily the same basis used in preparing the budget document. For example, governmental funds are required to use the modified accrual basis of accounting in GAAP financial statements whereas the cash basis of accounting or the "cash plus encumbrances" basis of accounting may be used in those same funds for budgetary purposes. Disparities between GAAP and the budgetary basis of accounting often occurs because regulations governing budgeting (e.g., laws or ordinances of the state, county, city or some other jurisdiction) differ from GAAP.

An understanding of the GAAP basis of accounting is critical to the proper budgeting of available financial resources. Explaining the major differences between the basis of accounting used in the budget document and the basis of accounting used in the GAAP financial statements helps stakeholders better understand and interpret the numbers presented in both documents.

A government that uses a budgetary basis of accounting other than GAAP, some of the more common differences between GAAP and the budgetary basis of accounting are as follows:

- *The timing of revenue and expenditures may be different under the GAAP basis of accounting than under the budgetary basis of accounting. For example, in GAAP accounting revenues are recognized in governmental funds as soon as they are both "measurable" and "available" whereas revenue recognition under the budgetary basis of accounting may be deferred until amounts are actually received in cash.*
- *Encumbered amounts are commonly treated as expenditures under the budgetary basis of accounting while encumbrances are never classified as expenditures under the GAAP basis of accounting.*
- *Budgetary revenues and expenditures may include items classified as "other financing sources" and "other financing uses" under the GAAP basis of accounting.*
- *Under the GAAP basis of accounting, changes in the fair value of investments generally are treated as adjustments to revenue, which commonly is not the case under the budgetary basis of accounting.*
- *Budget documents may not include all of the component units and funds incorporated into the GAAP financial statements.*

Under the GAAP basis of accounting used in proprietary funds, the receipt of long-term debt proceeds, capital outlays and debt service principal payments are not reported in operations, but allocations for depreciation and amortization expense are recorded. Often the opposite is true under the budgetary basis of accounting.

Policy

The City’s budget document shall clearly define the basis of accounting used for budgetary purposes. If the budgetary basis of accounting and the GAAP basis of accounting are the same, this fact should be clearly stated. If the budgetary basis of accounting and the GAAP basis of accounting are different, major differences and similarities between the two bases of accounting should be noted. Disparities may include basis differences, timing differences, fund structure differences and entity differences. The description of the differences between the GAAP basis of accounting and the budgetary basis of accounting should be written in a manner that is clearly understandable to those without expertise in either accounting or budgeting. The use of technical accounting terms should be avoided whenever possible. In cases where the use of technical accounting terms cannot be avoided, those terms should be clearly defined and fully explained.

References

- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)* and *GAAFR Update Supplement*, Stephen J. Gauthier, GFOA 1994 and 1999.
- *Recommended Budget Practices*: *A Framework for Improved State and Local Government Budgeting*, NACSLB, 1998.
- *Recommended Budget Practices* CD-ROM, NACSLB, 1998.
- *Budget Awards Program: Illustrations and Examples of Program Criteria*, Juliet Carol Powdar, GFOA, 1999.

Adoption Date: June 26, 2001	Policy Level: **2**

B7 Setting of Charges and Fees

Background

The City of Belmont uses charges and fees to fund the provision of goods and services. Charges are voluntary payments that are used to finance traditional governmental services such as sewerage, recreational activities such as gymnastics; and miscellaneous programs, such as building permits and, dangerous tree removal. From a technical standpoint, fees are distinctively different from charges, although the terms may be used interchangeably by some. A fee is imposed as a result of a public need to regulate activities, typically related to health, safety, or other protective purposes. Fees result in the purchase of a privilege or authorization and are applied to such activities as inspections and, building permits. According to economic theory, the most efficient use of resources is achieved if the price for a good or service is set at a level that is related to the cost of producing the good or service. In practice, governments set some charges and fees to recover 100 percent of the cost. Other charges and fees are set at levels above or below cost for various reasons, and in some cases, state or local law may restrict the amount of a charge or fee.

Policy

Belmont supports the use of charges and fees as a method of financing governmental goods and services. The following policy is established about the charge- and fee-setting process:

1. Belmont intends to recover the full cost of providing goods and services including those costs charged to Belmont itself. Circumstances where a set charge or fee at more or less than 100 percent of full cost shall be identified. If the full cost of a good or service is not recovered, then an explanation of Belmont's rationale for this deviation should be provided. Some considerations that might influence Belmont's pricing practices are the need to regulate demand, the desire to subsidize a certain product, administrative concerns such as the cost of collection, and the promotion of other goals.
2. The full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities. Examples of overhead costs include payroll processing, accounting services, computer usage, and other central administrative services.
3. Charges and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
4. Information on charges and fees should be available to the public. This includes the City of Belmont policy regarding full cost recovery and information about the amounts of charges and fees, current and proposed, both before and after adoption.

References

- *Catalog of Public Fees and Charges*, compiled by Dennis Strachota and Bruce Engelbrekt, GFOA, 1992.
- *Costing Government Services: A Guide for Decision Making*, Joseph T. Kelley, GFOA, 1984.
- "User Charges and Fees," C. Kurt Zorn in *Local Government Finance: Concepts and Practices*, edited by John E. Petersen and Dennis R. Strachota, GFOA, 1991.

Adoption Date:	Revision Date:	Policy Level:
June 26, 2001	June 25, 2002	**1**

B8 Budget Amendments

Background

The budget is a plan for service. The projected revenues and the expenditures are estimates. Many things can happen in a year to change either revenue expectations or expenditures needs. The City of Belmont tries to budget as accurately as possible. Should things change there is a process to amend the budget document. Supplemental appropriation resolutions are presented to the City Council during the budget cycle to add appropriations or transfer appropriations from one fund to another. Sometimes these changes will be accompanied by an offsetting additional source of revenue, neutralizing the possible impact on the expected ending balance of the relevant fund. Other times these changes will require that fund balances be used, reducing the amount of the fund balance from what was projected at the beginning of the year.

There are several different types of appropriations; in the case where there is a transfer of approved appropriations from one service center or division to another, the appropriation transfer is an expenditure transfer only, and the overall size of the budget is not increased and no additional transfer is required from a fund balance. In the case where there is an increase in the size of the budget because of the appropriation increase, an offsetting change in fund balance occurs unless the added cost is accompanied by an unanticipated increase in revenue.

Policy

Within legal limits, the City shall allow transfers consistent with implementing the programs and activities outlined in the budget. However, the City shall discourage the use of transfers when:

- Amounts are excessive and seriously alter priorities in the budget
- Made to obscure chronic deficits resulting in a delay of corrective action
- Shift the burden of taxation from one group to another
- Made from the General Fund to business type funds, whereby the transfer constitutes a subsidy from the general taxpayers to customers of the enterprise

The department heads approve interior appropriations adjustment within the service center or division. Interior appropriations adjustments between service center or division groups require the approval of the City Manager. Exterior appropriations adjustments between funds require approval of the City Council.

Supplemental appropriations during the fiscal year require an appropriations adjustment resolution passed by the City Council.

In the case where there is an increase in the size of the budget because of the appropriation increase, the resolution requires an offsetting change in fund balance unless the added cost is accompanied by an unanticipated increase in revenue to either the General Fund or a restricted fund. If such an offset occurs, then there is no change to the fund balance but the increase in revenue and the source of that revenue is to be shown in the appropriations adjustment resolution.

Where the increased appropriation is to be funded from fund balance and no offsetting revenue is identified, the resolution must show a decrease in fund balance from that expected when the budget was adopted.

Where the increased appropriation is to be funded from the General Fund, an appropriation from the contingency shall occur first, as this has already been accounted for in the City's overall expenditure plan for the year. In the event that the total contingency is expended, the City Council will have to decide, on a case by case basis, to authorize a further expenditure from the City's General Fund unreserved fund balance.

References

- *NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.*
- *NACSLB's Practices located on GFOA's web site at* www.gfoa.org

Adoption Date: June 26, 2001	Revision Date: June 25, 2002	Policy Level: **1**

B9	Balanced Budget

Background

A government should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means. At a minimum, balance should be defined to ensure that a government's use of resources for operating purposes does not exceed available resources over a defined budget period. A more stringent definition requires that a government maintain a balance between operating expenditures and operating revenues over the long term, not just during the current operating period. This latter definition of balance is referred to as structural balance.

The policy should provide clear definition as to how budgetary balance is to be achieved. Definitions of items to be counted as operating resources (e.g., revenues) and operating resources uses (e.g. expenditures) should be explicitly identified. All funds should be included. Statutory and other legal "balanced" budget requirements should be met, but this practice recommends additional policies and practices, if necessary, to achieve and report on structural balance. The policy should explicitly note and, if necessary explain the relevant constitutional, statutory, or case law provisions that impose a balanced budget requirement upon the government. The policy also should identify the circumstances when deviation from a balanced budget may occur. The policy should be written in nontechnical language or have a nontechnical summary. Because of its importance in budget decisions, it should be readily available to stakeholders and publicly discussed at key points in the budget process. Compliance with the Some states and local governments define resources and resource uses to include fund balances or charges to fund balances. There may be statutory or other requirements that a budget must be balanced based on this definition. These types of statutory balanced budget requirements are a component of and not in conflict with the goal of achieving structural balance. Additional or even separate reporting may be required to demonstrate that both statutory balance and structural balance have been achieved.

This practice does not directly apply to capital budgets. Capital budgets are often funded at least partially from one-time resources. However, the ongoing maintenance or replacement of capital equipment of facilities is an important part of the budget process. Such items, particularly maintenance or equipment replacements, are often defined as operating items to ensure their inclusion in operating budget decisions.

Policy

The City of Belmont balanced budget policy includes the following:

- Identification of and rationale for what operating resources and resource uses included or excluded from the definition of a balanced budget calculation are: The calculation includes operating revenues and expenditures only; capital maintenance or replacement is excluded; interfund transfers are excluded and highly variable components of ongoing revenues (such as the volatile component of sales tax revenues or development-related revenue) shall be excluded on a case by case basis.

- Fund balances may be used as a resource for non-recurring expenditures.
- The budget must be balanced, upon adoption
- The modified accounting accrual basis is used to define revenues and expenditures.
- The circumstances in which noncompliance with the balanced budget policy shall be permitted if fully disclosed (e.g. during the early stages of an economic downturn so that services can be reduced in an orderly fashion).
- Mid term reviews shall be used to take action to bring the budget into balance if adjustments are needed in the course of a fiscal period.

References

- *NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.*
- *NACSLB's Practices located on GFOA's web site at* www.gfoa.org

Adoption Date: June 26, 2001	Policy Level: **1**

City of Belmont Financial Policies

CASH MANAGEMENT

C1	Acceptance of Credit Cards

Background

In the last two decades, credit card acceptance as a payment method via nationally recognized credit cards such as Visa, MasterCard, Discover (NOVUS), and American Express has become virtually universal within the private sector. Such cards are now accepted at a point of sale (POS) for even the smallest transactions. There are advantages and disadvantages to accepting credit card payments, which Belmont has weighed when deciding whether to accept payments by credit cards.

Policy

The City of Belmont, subject to state and local law and regulation, has evaluated whether acceptance of credit cards as a payment option is reasonable and appropriate for the type of charge or fee being paid and the customer service level desired. The evaluation considered the following:

1. Merchant discount fees, which are the costs charged by the credit card issuer per transaction and typically vary between one and three percent of the value of the transaction. Belmont considered passing the fees on to the consumer but decided against that practice. In any event, Belmont should negotiate the lowest possible fee to minimize the financial impact to the City of Belmont or to the consumer, whichever party will ultimately pay the fee.
2. Type of payment. Belmont considered whether they want to allow credit cards for mandatory charges for which citizens must pay (such as taxes, utility bills), or for discretionary charges which citizens elect to pay (such as recreation fees, performing arts admissions). Acceptance of credit cards as a method of payment for mandatory charges may not significantly increase the amount of revenue received by Belmont, and will actually reduce net expected revenues as a result of paying the merchant discount fee. Acceptance of credit cards as a method of payment for discretionary charges and absorption or payment of the related merchant discount fees may facilitate collection of such charges. However, the City determined that all charges would be accepted by credit card.
3. Administrative costs, which are the costs of equipment and the associated personnel necessary to process credit card transactions will be charged to the departments through the cost recovery program.
4. Benefits to Belmont, include:
   - increased certainty of collection,
   - reduced return check processing costs,
   - accelerated payments and the availability of funds,
   - improved audit trail,
   - reduced cashiering costs, and
   - enhanced customer convenience.
5. Belmont will weigh the cost of paying the credit card fee versus the cost of processing cash, checks, and checks returned for insufficient funds.
6. The City also recommends that third-party processors, such as commercial automated services capable of processing credit card transactions seven days per week, 24 hours per day, be used whenever possible they may prove to be

essential in affecting cost savings for Belmont. The City further recommends that a credit card acceptance agreement be approved by the City Council as a bank service agreement.

References

- *An Introduction to Treasury Management Practices,* GFOA, 1998.
- *An Introduction to Electronic Commerce: Government Cash Management Programs*, GFOA, 1998.

Adoption Date: June 26, 2001	Revision Date: June 24, 2003	Policy Level: **2**

C2 Check Fraud Protection

Background

Despite the increase in use of electronic payments, reports of check fraud also are increasing. Recent technological advances in computer hardware, software, scanners, Magnetic Ink Character Recognition (MICR) equipped printers, and photocopiers make it increasingly possible to produce fraudulent checks. Moreover, recent revisions to the Uniform Commercial Code sometimes shift liability for fraudulent items from banks to government and corporate account holders, particularly if an entity has not taken reasonable steps to protect against losses.

Policy

The City of Belmont adopted the following steps to protect themselves against check fraud:

- Make use of check stock with security features such as watermarks, "void" pantograph (which displays the word "void" when the check is photocopied), micro printing, laid lines and other backgrounds with multiple patterns or colors, special ink that can be read under ultra violet light, and chemical coatings that react to attempts at alteration.
- Secure check stock daily. Remove continuous forms from printer, lock printer, and secure check stock in a locked environment.
- Require two signatures on checks.
- Update signature cards when staff changes.
- Reconcile all bank statements and notify banks of discrepancies on a timely basis.
- Provide for physical security of returned checks and check copies or digital images.
- Ensure proper segregation of duties among staff initiating, authorizing, preparing, signing, and mailing payments and reconciling bank statements.
- Conduct periodic and surprise audits or reviews of procedures.
- Set dollar limits for checks with banks, and individual checks, particularly on smaller accounts.
- Make use of "positive pay" services provided by banks, through which banks pay only those items that match a check issue file provided to the bank.
- Provide written instructions to local banks regarding the honoring or returning of checks.
- Make use of electronic check presentment (ECP) with the disbursement bank, if available.
- Consider outsourcing the payment process.
- Promote use of Electronic Funds Transfer (EFT).

References

- *An Introduction to Treasury Management Practices*, GFOA, 1998.

C3 Collateralization of Public Deposits

Background

The safety of public funds should be the foremost objective in public fund management. Collateralization of public deposits through the pledging of appropriate securities or surety bonds by depositories is an important safeguard for such deposits. State programs pertaining to the collateralization of public deposits have generally proven to be beneficial for both the public sector and its depositories.

However, federal law imposes certain limitations on collateral agreements between financial institutions and public entities in order to secure public entity deposits. Under certain circumstances, the Federal Deposit Insurance Corporation (FDIC) may be able to avoid a perfected security interest and leave the public depositor with only the right to share with other creditors in the pro rata distribution of the assets of a failed institution.

Policy

The City of Belmont favors the use of pledging requirements as protection for state or local government's deposits. The City will establish adequate and efficient administrative systems to maintain such pledged collateral, including state or locally administered collateral pledging or collateral pools. To accomplish these goals, the City adopted the following:

1. The City of Belmont will implement programs of prudent risk control. Such programs include a formal depository risk policy, credit analysis, and use of fully secured investments. In the absence of an effective statewide collateralization program, the City should establish and implement collateralization procedures.
2. Belmont's depositors should take all possible actions to comply with federal requirements in order to ensure that their security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution. Federal law provides that a depositor's security agreement, which tends to diminish or defeat the interest of the FDIC in an asset acquired by it as receiver of an insured depository, shall not be valid against the FDIC unless the agreement:
   a. is in writing;
   b. was approved by Finance Commission of the depository or its loan committee; and
   c. has been, continuously, from the time of its execution, an official record of the depository institution.
3. The City of Belmont will pledge all collateral held at an independent third-party institution, and which will be evidenced by a written agreement in an effort to satisfy The Uniform Commercial Code (UCC) requirement for control. The UCC states that the depositor does not have a perfected interest in a security unless the depositor controls it. Control means that swaps, sales, and transfers cannot occur without the depositor's written approval.
4. The value of the pledged collateral should be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. If state statute

does not dictate a minimum margin level for collateral based on deposit levels (e.g., Georgia statute requires 110 percent), the margin levels should be at least 102 percent, depending on the volatility of the collateral pledged.

5. Substitutions of collateral should meet the requirements of the collateral agreement, be approved in writing prior to release, and the collateral will not be released until the replacement collateral has been received.
6. The pledge of collateral should comply with the City's investment policy or state statute, whichever is more restrictive.
7. The use of surety bonds and other appropriate types of insurance in lieu of collateral could be reviewed as an alternative to collateralization. If the City agrees to the use of surety bonds and other types of insurance in lieu of collateral, only insurers of the highest credit quality as determined by a nationally recognized insurance rating agency should be used.

References

- GFOA Sample Security Agreement, 1995.
- GFOA Sample Custodial Trust Agreement, 1995.
- *An Introduction to Collateralizing Public Deposits for State and Local Governments*, M. Corinne Larson, GFOA, 1996.
- *Investing Public Funds*, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.

Adoption Date:
June 26, 2001

Policy Level:
2

C4 Diversification of Investment in a Portfolio

Background

The City of Belmont is charged with observing the investment management objectives of safety, liquidity, and yield. Portfolio risk includes all the risks associated with investments, such as credit risk and market risk. Risks to safety and liquidity can be mitigated through diversifying the types and maturities of securities purchased. Because ensuring safety and liquidity are paramount, the City strives to reduce portfolio risk as much as possible in their investment policies through appropriate diversification of investments in the portfolio and restrictions on maturity provisions.

Policy

The City of Belmont diversifies their investments to reduce portfolio risk by:

- limiting investments to avoid over concentration in securities from a specific issuer or business sector, excluding U.S. Treasury securities and the state and county Investment pools;
- limiting investments in securities that have higher credit risks;
- investing in securities of varying maturities; and
- continuously investing a portion of the portfolio in readily available funds, such as local government investment pools (LGIPs), money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

References

- GFOA Sample Investment Policy, 1996.
- *Investing Public Funds*, Girard Miller, GFOA, 1986.

Adoption Date:
June 26, 2001

Policy Level:
2

C5	Electronic Transactions for State and Local Governments

Background

The City of Belmont is responsible for making a wide variety of payments to their employees, program recipients, vendors and other governments. In addition, Belmont receives revenue and fees from a wide variety of sources. Processing these disbursements and receipts can be very time-consuming and costly.
Many governments and private sector entities are moving towards the electronic movement of funds to achieve the following types of benefits:

- *reduced bank fees;*
- *faster deposit and investment of funds;*
- *improved cash flow certainty allowing better investment decisions;*
- *easier and less expensive bank reconciliations;*
- *reduced check production and distribution costs (e.g., supplies, printing, signing, bursting, mailing and handling);*
- *reduced check stock and associated storage and security costs; and*
- *fewer lost, stolen, and reissued checks.*

Policy

The City of Belmont evaluates opportunities to make and receive electronic payments in the following areas:

- payroll,
- expense reimbursements
- vendor payments,
- retirement payments,
- intergovernmental payments,
- other recurring payments
- Internet transactions
- grant payments,
- other large, repetitive incoming payments (e.g., utility service),
- tax payments, and
- license payments
- other recurring receipts.

In evaluating the costs and benefits of electronic payments, the City considers at minimum, the following factors:

- bank fees,
- experience with fraudulent or returned checks,
- supply costs,
- administrative and processing costs,
- mail fees,
- impact (either positive or negative) on the availability of funds and interest earnings, and
- information technology resources and capabilities.

To the extent that electronic transactions are used, Belmont has implemented the following safeguards:

- establishment of adequate computer network security to protect against viruses and unauthorized access to account information
- written agreements for electronic transactions with financial institutions in compliance with UCC4A,
- dual controls for the authorization of non-repetitive transactions,
- dual controls for the establishment of repetitive transactions,
- establishment of dollar limits per transaction per authorized personnel,
- establishment and use of passwords for authorized personnel to initiate transactions,
- call-back procedures to verify transactions,
- confirmations of transactions from financial institutions,
- establishment and use of adequate controls against unauthorized automated clearinghouse debits,
- use of separate accounts for automated clearinghouse debit activity where volume and type of payment warrant, and
- adequate internal controls addressing access control, confidentiality of data, integrity of data, and other information security issues as appropriate.

References

- *Model Electronic Payments Agreement and Commentary*, prepared by the EDI and Information Technology Division Section of Science and Technology, American Bar Association, 1996.
- *Negotiating Wire Transfer Agreements, A Guide for Treasury Executives, Bankers & Attorneys*, Paul S. Turner, Treasury Management Association, 1996.
- *An Introduction to Electronic Commerce: Government Cash Management Programs*, GFOA, 1998.
- *An Introduction to Treasury Management Practices*, GFOA, 1998.

Adoption Date:	Revision Date:	Policy Level:
June 26, 2001	June 24, 2003	**2**

C6	Frequency of Purchased Securities Valuation in Repurchase Agreements

Background

A repurchase agreement (repo) is a transaction between a bank or securities dealer and an investor in which the bank (dealer) sells the securities to the investor (Belmont) with a simultaneous agreement to buy the securities back from the investor at a specific time and at a price that will result in a predetermined yield to the investor. Securities sold are usually U.S. Treasury obligations, although agency securities and other alternative securities are also used. Repo transactions can be effected overnight, for a specified number of days, or as a continuing open contract. The repo market encompasses a broad range of debt and other securities, is highly liquid, and offers returns slightly above Treasury bills for investors.

Public funds have used repos since the 1970s. In September 1996, The Bond Market Association (TBMA) published a revised version of its Master Repurchase Agreement, which previously had been amended in 1987. The revised agreement includes modifications designed to reflect the expansion of the repo market and changes in the law with respect to liquidation and closeout. Policies of the City of Belmont regarding securitization and safekeeping for deposits and investments, including repos, must be disclosed under the Governmental Accounting Standards Board (GASB) Statement 3.

The valuation of securities is an important factor in managing the risk of default in repurchase transactions. To protect the buyer from a decline in the price of the security during the term of the repo agreement, the seller usually delivers underlying securities in an amount necessary to sufficiently cover the investor's investment plus accrued interest. The value of the securities must be monitored frequently to insure that the market value remains above the principal and interest earned to date in case of default of counterparty. If the counterparty does not default, the value of the securities will not affect the repo agreement.

The frequency of the valuation depends on the duration of the investment, security types and any established margin percentage. Less frequent valuations should require higher margin percentages since the risk exposure period is longer; the risk of market price declines is greater over longer time periods.

Policy

The City of Belmont established a policy and procedure for monitoring the value of the purchased securities to insure that it does not drop below the value of the repo. Though unnecessary for overnight investments, Belmont may periodically revalues longer-term purchased securities and continuous repo transactions to avoid incurring a loss. Belmont considers the use of third-party financial sources in their valuation process to price and transfer purchased securities.

In order to facilitate the determination of market value when negotiating a master repurchase agreement, Belmont specify both the types of securities that are acceptable for the transaction and the pricing source for the securities. Price information for the securities is readily available from a generally recognized source. As of any specific date during the transaction, the purchased securities is priced at market value (including the value of the accrued interest) before applying any margin percentage because the investor may need to liquidate the securities in the secondary market in the event the seller does not complete the repurchase agreement transaction.

References

- *Considerations for Governments in Developing a Master Repurchase Agreement, Second Edition,* GFOA Committee on Cash Management, 1988.
- *An Introduction to Broker/Dealer Relations for State and Local Governments,* M. Corinne Larson, GFOA, 1994.
- GFOA Sample Custodial Trust Agreement, 1995.
- Master Repurchase Agreement, The Bond Market Association, September 1996.
- *An Introduction to Collateralizing Public Deposits for State and Local Governments,* M. Corinne Larson, GFOA, 1996.
- "Investor Alert: Repo Agreements," *Public Investor*, April 3, 1998.
- *Investing Public Funds, Second Edition*, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.
- "Tri-Party Repo," *Public Investor,* GFOA, October 2, 1998.
- "Flexible Repurchase Agreements," *Public Investor*, GFOA, January 1, 1999.

Adoption Date: June 26, 2001	Policy Level: **2**

C7 Government Relationship with Securities Dealers

Background

State and local governments represent one of the largest sources of investment funds available to purchase U.S. Government Securities. Without broad participation by government investors, the government securities market would lack liquidity and the U.S. Treasury's cost of borrowing would increase. At the same time, governmental investors are expected to protect public funds from losses arising from default and to ensure that securities are purchased and sold at the best price available in the competitive marketplace.

Policy

The City of Belmont adopted the following procedures when selecting depositories and securities dealers for the purpose of investment transactions in government securities:

1. Select or qualify depositories, custodians, and dealers through competitive procedures, including requests for proposals for banking services. All securities purchases should be made through competitive bidding. In the event that Belmont does not obtain competitive price bids, investors are urged to obtain written documentation of price markups prior to completing the transaction.
2. Require securities dealers conducting transactions with Belmont to comply with the Federal Reserve Bank of New York's capital adequacy guidelines as a condition of doing business. Before investing public funds, Belmont's investors should obtain compliance certifications from the dealer and an independent auditor.
3. Secure acknowledgment from depositories and dealers that they have received written copies of their investment policies, portfolio risk constraints, and investment trading requirements.
4. Be aware of reasonably foreseeable risks of market price loss, liquidity, nonmarketability, or default of investment instruments before they are purchased. Additionally, securities dealers have a responsibility to disclose unreasonable risks.

References

- *An Introduction to Broker/Dealer Relations for State and Local Governments*, M. Corinne Larson, GFOA, 1994.
- *Investing Public Funds*, Girard Miller, GFOA, 1986.

Adoption Date:
June 26, 2001

Policy Level:
2

C8 Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools

Background

As the investment portfolios of the City of Belmont are subjected to increased scrutiny, it is essential that reporting standards be enhanced so that the City Council, investors, the Finance Commission, and the public remain informed of the current market value of the portfolio. Regular disclosure of the value of Belmont's investments is an important step to furthering taxpayer and market confidence in Belmont's investment practices. The Governmental Accounting Standards Board (GASB) has also recognized in GASB Statement 31 the need to report investments at fair value at fiscal year end.

Policy

The City of Belmont officials responsible for the reporting of the investment portfolio report the market value of all securities in the portfolio on at least a quarterly basis. These values are obtained from a reputable and independent source and disclosed to the Finance Commission or other oversight body at least quarterly in a written report. It is recommended that the report include the market value, book value, and unrealized gain or loss of the securities in the portfolio.

The Belmont City Treasurer and designated officers are allowed to invest in various investment pools available in the local region and state. The City recommends that pool administrators, on at least a monthly basis, determine the market value of all securities in the pool and report this information to all pool participants on at least a quarterly basis. These values are obtained from a reputable and independent source. This information is included in the report to the Finance Commission prepared on at least a quarterly basis.

References

- An Elected Official's Guide to Investing, M. Corinne Larson, GFOA, 1995
- GASB Statement 31 and Implementation Guide

Adoption Date:
June 26, 2001

Policy Level:
2

C9 Market Risk (Volatility) Ratings

Background

The City of Belmont has long relied on credit ratings as an independent analytical source to gauge the credit risk of an investment option. However, credit risk analysis alone is not sufficient to safeguard against the assumption of other risk components, including market, interest rate, and liquidity risks. Through the securitization and structuring process, AAA rated securities and funds also may carry extreme market and other risks that are wholly unaddressed by credit ratings. Rating agencies now provide market risk ratings that evaluate the volatility of the security under a wide range of potential interest rate and mortgage prepayment scenarios.

Risk components, such as interest rate, prepayment, credit, spread and liquidity, and currency risks are analyzed to assess how aggressively a fund uses derivatives and leveraging, and what risks their use presents to fund managers and investors in the fund. Results indicate the degree of potential variability in the prospective fund performance. Historical performance and volatility of fund returns relative to appropriate benchmarks also are evaluated.

When applied to individual collateralized mortgage obligations (CMOs), market risk ratings provide a useful benchmark to the City of Belmont as guidelines for prudent management of derivative investments.

Policy

The City of Belmont will augment information they receive from brokers, dealers, or advisors with independent research when conducting due diligence of potential investments. Information sources include historical trading ranges, trend and volume data, brokerage firm research, cash flow and present value analysis, and credit ratings and research. The City encourages investments in only those CMOs and funds that seek market risk ratings from rating agencies to provide comprehensive disclosure of risks to public investors. Although volatility ratings currently are not mandatory, public investors may wish to consider limiting their investments to CMOs and funds that have received favorable volatility ratings from a nationally recognized rating agency.

References

- *An Introduction to External Money Management for Public Cash Managers*, GFOA, 1991.

Adoption Date:
June 26, 2001

Policy Level:
2

C10 Back-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools

Background

As the investment portfolios of the City of Belmont are subjected to increased scrutiny, it is essential that reporting standards be enhanced so that investors, governing bodies, and the public remain informed of the current market value of the portfolio. Regular disclosure of the value of Belmont's investments is an important step to furthering taxpayer and market confidence in Belmont's investment practices. The Governmental Accounting Standards Board (GASB) has also recognized in GASB Statement 31 the need to report investments at fair value at fiscal year end.

Policy

The City of Belmont officials responsible for investment portfolio reporting determine the market value of all securities in the portfolio on at least a quarterly basis. These values should be obtained from a reputable and independent source and disclosed in the Treasurer's Report to the Finance Commission at least quarterly. The report will include the market value, book value, and unrealized gain or loss of the securities in the portfolio.

Certain Belmont officials are authorized to invest in various Belmont investment pools available in their state or region. The pool administrators, on at least a monthly basis, determine the market value of all securities in the pool and report this information to all pool participants on at least a quarterly basis. These values are obtained from a reputable and independent source. This market value information will be included in the Treasurer Report on at least a quarterly basis.

References

- *An Elected Official's Guide to Investing*, M. Corinne Larson, GFOA, 1995
- GASB Statement 31 and Implementation Guide

Adoption Date:
June 26, 2001

Policy Level:
2

C11 Trust and Custodial Bank Security Lending Programs

Background

The lending of securities helps to maintain an orderly market while providing incremental income to the participant. Broker/dealers borrow primarily to cover fails (the non-delivery of a security expected to be delivered on a date certain) and short sales (the sale of a security not presently owned by the seller in order to take advantage of an expected lower market price), and to execute arbitrage transactions. Their preferred partners in these transactions are the master trust and custodial banks, since their huge portfolios basically offer "one-stop shopping." As part of their trust and custody management services, banks, like other money managers, offer to lend securities owned by institutional clients to brokers in exchange for collateral. The collateral, which is usually cash, is reinvested at a rate higher than the rebate rate paid to the broker. The resulting proceeds are subsequently split between the lending agent and the client.

A security lending transaction is similar to a reverse repurchase transaction and subject to many of the same risks. While the indemnification offered may vary, the lending agreement may provide that broker credit risk, broker default risk, and collateral maintenance are risks undertaken by the lending agent. The degree of risk assumed by the lending agent generally is reflected in the split of proceeds. The institutional client undertakes lending agent credit risk, lending agent default risk, and collateral reinvestment risk.

Unsound collateral reinvestment practices can result in some master trust and custodial banks incurring losses on behalf of their institutional security lending program customers. Additionally, rapidly changing interest rates, lending short and investing long, investing in speculative derivatives, and paying a fixed rebate rate while investing in floating rebate rate securities under adverse market conditions are examples of situations that can produce investment losses.

Liquidity requirements are often accepted by and guaranteed by the lending agent upon one day's notice, as substitution of the lending client in large lending programs is easily accomplished and essentially riskless. Programs that require the client to undertake responsibility for managing the liquidity present greater risks and require that the client place limits on the amount of the portfolio which may be put on loan. The term of the securities on loan and the reinvestment of the proceeds must be carefully established by the client and strictly managed.

Policy

While investment strategies that include security lending programs are not inherently risky when employed judiciously with appropriate precautions and controls, the City of Belmont exercises extreme caution in their use of security lending programs. Prior to participating in a security lending program, the City will carefully evaluate:

- whether security lending is legally permissible under state statute and the City’s investment policy;
- the terms of the lending agreements;

- the indemnification provisions;
- the reinvestment guidelines and terms of the lending, including the maturity of loans as well as the securities purchased;
- the liquidity provisions and risks;
- the selection of the counter-parties to the lending program;
- the agreement for the split of investment proceeds;
- the credit risks to be undertaken; and the resources required to monitor compliance with the agreement.

References

- *Investing Public Funds*, Girard Miller, GFOA, 1986.

Adoption Date:	Revision Date:	Policy Level:
June 26, 2001	June 24, 2003	**2**

C12 Maturities of Investments in a Portfolio

Background

Securities are issued in a variety of maturities. Belmont is aware of the maturity features of the securities that are purchased. To ensure that liquidity is maintained and to reduce interest rate risk in operating funds, the City of Belmont limits the maximum maturity (the date on which payment of a financial obligation is due) on any specified purchased security and the maximum weighted average maturity (the average maturity or reset period of all securities that comprise a portfolio) of the entire portfolio. The longer the maturity horizon that is selected, the greater the price volatility. In accordance with the Governmental Accounting Standards Board reporting requirements, the portfolio will report unrealized losses or gains for any reporting period.

Policy

The City of Belmont will strive to match investments with anticipated cash flow requirements. The City Council supports the following practices to achieve this objective:

1. Unless matched to a specific cash requirement, the City will not directly invest in securities maturing more than five years from the date of purchase. Reserve or other funds with longer-term investment horizons may be invested in securities exceeding five years, if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities will be disclosed in the City's investment policy.
2. Belmont may adopt weighted average maturity limitations, which often range from 90 days to three years, consistent with Belmont's investment objectives.
3. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio may be continuously invested in readily available funds such as local government investment pools (LGIPs), money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

References

- *Investing Public Funds*, Girard Miller, GFOA, 1986.
- GFOA Sample Investment Policy, 1996.

Adoption Date: June 26, 2001	Revision Date: June 24, 2003	Policy Level: **2**

C13 Procurement of Banking Services

Background

The City of Belmont uses a wide variety of banking services for the deposit, disbursement, and safekeeping of public monies. Prudent procurement practices necessitate the reevaluation of banking services on a periodic basis. In addition, recent changes in technology, cash management practices, and banking-industry structure offer public investors opportunities to reevaluate banking services and costs.

Policy

The City of Belmont has adopted the following practices to receive effective banking services at a reasonable cost:

1. Belmont will utilize, as appropriate, competitive-bidding and negotiation processes for the major banking services. The processes should include requests for proposals and should cover services, fees, earnings credit rates, and availability schedules for deposited funds.
2. Contracts for banking services specify services, fees, and other components of compensation.
3. Belmont will evaluate the relative benefits and costs of paying for services through direct fees, compensating balances, or a combination of the two. Compensating-balance arrangements can offer convenience and seemingly low costs. However, because of uncompetitive earnings credit rates, reserve requirements, and insurance fees on deposits, compensating banks through fees or a combination of fees and balances may be most financially advantageous.
4. Belmont may evaluate their needs against the costs and benefits of specific banking services, including but not limited to:

- controlled disbursement accounts,
- zero-balance accounts,
- positive-pay services,
- reconciliation services,
- lock-box services,
- electronic-balance and transaction-reporting services,
- electronically placed stop payments,
- electronic payments,
- electronically transmitted analysis statements,
- electronic or digitized storage of paid checks,
- overnight sweep accounts,
- safekeeping and custody arrangements,
- credit-card receipt merchant services, and
- procurement cards.

References

- *Banking Relations: A Guide for Governments*, Rhett Harrell, GFOA, 1986.
- *Cash Management for Small Governments*, edited by Ian J. Allan, GFOA, 1989.
- *Introduction to Treasury Agreements*, Linda Sheimo, GFOA, 1992.

Adoption Date: June 26, 2001	Policy Level: **2**

C14 Same-Day Funds Settlement Procedures

Background

A variety of participants in the securities markets have determined ways in which the date, timing and type of funds paid to depositories should be modified to transform the securities settlement system from a "next-day" funds to a "same-day" funds system. The purpose of these market participants is to standardize payments, reduce risk, improve efficiency, and reduce costs involved in securities settlement and to coordinate with changes in daylight overdraft and settlement procedures mandated by the Federal Reserve.

Policy

To ensure that principal and income payments are made using same-day funds, the City prospectively adopted the following recommendations:

1. All new issues will be depository-eligible and principal and interest should be paid in same-day funds on the payment date.
2. For all existing issues, payments of principal and income should be made to depositories in same-day funds on the payment date.
3. Each depository will pay bondholders in same-day funds on payment date.
4. On, or prior to the morning of payment date, CUSIP number identification and dollar amount notifications will be sent to each depository using automated communications.
5. The City issuers and their paying agents will enter into discussions to assure that funds are made available early on payment date for paying agents to pass on to depositories.
6. The City will distribute to everyone involved in the payment process, including bond counsel and investment bankers.
7. The City will appoint a staff person to be responsible for keeping the organization informed about changes in the payments system and to coordinate implementation of this process.
8. The City will assure that all affected operations and systems personnel within the Belmont unit understand these procedures.
9. The City will request system specifications from the depository and additional questions about these procedures will be addressed to the depository.

References

- "Report of the Same-Day Funds Payment Task to the U.S. Working Committee," Clearance and Settlement Project, Group of Thirty, August 1993.

Adoption Date:
June 26, 2001

Policy Level:
2

C15 Use of Various Types of Mutual Funds by Public Cash Managers

Background

Belmont's cash managers can sometimes benefit from investing public funds through mutual funds. The City Investment Policy allows the use of money market mutual funds by Belmont's cash managers. Portfolio diversification, liquidity, and professional management are desirable features of these investment vehicles.

Policy

The City of Belmont will study the fund's prospectus and statement of additional information prior to investing in mutual funds, to determine:

- the integrity and experience of the investment company,
- sales fees and operating expenses,
- fundamental portfolio policies, and
- portfolio composition.

Belmont's cash managers will use special care when investing in bond mutual funds. Mutual funds investing exclusively in short- and intermediate-term instruments may be appropriate investments in some jurisdictions. However, mutual funds investing in long-term securities should be avoided. Market price risks could impair the safety of assets.

References

- *An Introduction to External Money Management for Public Cash Managers*, GFOA, 1991.
- *A Public Investor's Guide to Money Market Instruments, 2nd edition*, edited by M. Corinne Larson, GFOA, 1994.

Adoption Date: June 26, 2001	Policy Level: **2**

C16 Use of Lockbox Services

Background

Lockbox services are designed to expedite the collection of paper-based payments and provide timely payment information to update accounts receivable records. A third party processor (usually a bank) that receives, opens and processes payments for the City of Belmont provides Lockbox services. The City's, lockbox services should: increase payment and posting accuracy; improve cash flow by reducing processing time between delivery of mail and depositing of payments; and increase staff productivity by freeing personnel from the labor intensive process of manually handling mail and payments. There are two basic types of lockbox services: wholesale (used for high dollar, low volume payments) and retail (used for high volume, low dollar payments such as taxes, utilities, licenses and fees, accompanied by standardized remittance documents). Retail lockbox services generally are of primary interest to the City of Belmont.

Policy

The City of Belmont will evaluate the benefits and costs of utilizing lockbox services to determine if advantages can be gained in the areas of accuracy, cash flow and efficiency. The evaluation will consider:

1. Availability of Lockbox Services. Belmont will encourage local banks to enter the lockbox business or attract a lockbox processor into an area that is not serviced. Belmont will investigate how local utilities and cable television firms process their payments.
2. Workflow and Cash Flow. The evaluation of lockbox services must include:
    - an analysis of the existing workflow from receiving mail to depositing payments and posting receivables,
    - staffing requirements,
    - time necessary to complete,
    - security of the process, and
    - employee accuracy.
3. Costs associated with these processes are evaluated against the costs and benefits of outsourcing to a lockbox processor. Particular attention will be paid to any delays in depositing funds as most lockbox processors guarantee that payments received are deposited into the organization's bank account the same day they are received.
4. Technical Requirements. Automated lockbox processing has certain technical requirements. The process must begin with a remittance document that meets the processor's specifications. Primary among these specifications is that the document contains an optical character recognition (OCR) scan line that includes identification and payment information. Other document requirements typically include form size, character placement, inclusion of a

check digit, ink type and paper quality. The type of printer used to produce the remittance document can have an impact on lockbox processing error rates and thus on overall costs.

5. Depending on the needs and capabilities of Belmont, the transmission of data from the lockbox processor back to Belmont can range in sophistication from the exchange of hard copy records to computer-to-computer data transmission. Computer-to-computer data exchange will usually require changes to existing software. Lockbox processors can also offer data storage services by converting remittances to electronic data.

6. Staffing Levels and Workload. Belmont billings and cash flows are often cyclical, causing problems in cash management operation staffing levels. Shifting payment processing responsibility to a lockbox processor alleviates the dilemma of adequately staffing to meet a limited number of peak periods versus overburdening a small staff during critical periods.

Any contract entered into by the City of Belmont and a lockbox provider at a minimum include the following:
1. treatment of exception (non-standard) items,
2. turnaround time,
3. disposition of documents,
4. funds availability schedule, and
5. error tolerance.

In the event these services are procured through the use of a request for proposal, the request for proposal and the vendor response should be included as part of the contract.

References

- *An Introduction to Treasury Management Practices, GFOA, 1998.*
- *Banking Relations: A Guide for Governments, Rhett Harrell, GFOA, 1986.*

Adoption Date:
June 26, 2001

Policy Level:
2

C18 Selection of Investment Advisers

Background

The City of Belmont may augment their investment programs by retaining investment advisers to perform various portfolio services, ranging from advice-only consultation to fully discretionary management. In many cases, the results of these engagements have been favorable, but there have also been cases of reported losses resulting from transacting business with certain investment advisers. Federal regulatory scrutiny of the relationship between investment advisers and public funds is also increasing.

Policy

The City of Belmont exercises caution in their selection of investment advisers, particularly because the responsibility for safety and liquidity of Belmont funds cannot be delegated to an investment adviser. If Belmont is considering or retaining an investment adviser the policies regarding the procurement of investment advisory services will address the following:

1. The responsible Belmont official will appoint a consultant and/or review committee to conduct the search process.
2. A competitive, merit-based procurement process for selection will be employed.
3. Determination of responsibilities as an investment adviser, investment manager or both will be stated.
4. The consultant and/or review committee will determine the criteria to be used in the selection. Criteria will include but are not limited to:
    - style parameters based on portfolio, including asset class and specialty focus as appropriate,
    - years in business,
    - assets under management,
    - investment performance versus benchmarks, and
    - delivery of Form ADV Part I and Part II (including Schedule I) prior to contract execution.
5. The consultant and/or review committee will determine the sources for candidates to be considered, including but not limited to:
    - Consultants' database on investment advisory firms,
    - industry reports and articles,
    - marketing materials,
    - references from other jurisdictions,
    - other special research and reports in order to ensure diversity in candidate pool, and

- other Belmont resources and information.

6. The consultant and/or review committee will carefully review the credentials, procedures, and controls of firms offering investment advisory services. The review measures include the following:
   - delivery versus payment,
   - third-party custody arrangements,
   - prohibitions against self-dealing,
   - independent audits,
   - timely reconciliations, and
   - other appropriate internal control measures.

7. The consultant and/or review committee will perform due diligence on candidates, including but not limited to:
   - quantitative information,
   - organizational structure of firm,
   - experience and depth of personnel in firm, including turnover,
   - firm-specific investment philosophy and portfolio management strategies,
   - trading process,
   - management fees,
   - references from other clients, interviews with finalists, and
   - use of a request for proposal (RFP) process.
8. After the consultant and/or review committee has made a recommendation regarding the selection of an investment adviser, the contract process will include the following:
   - establishment of account and assignment of management and fiduciary responsibility,
   - determination of professional liability insurance for errors and omissions,
   - establishment of fee and terms of invoicing and payment,
   - procedure for termination of contract by either party,
   - specifications related to nondiscrimination in contracting and ethics rules, and certification of the investment adviser that he has read and understood the investment policy.
9. The City official managing the investment adviser contract will comply with the following ethical considerations:

- adherence to all jurisdiction's ethics laws, rules and regulations related to procurement and involvement with contractors, including those related to political contributions,
- disclosure to jurisdiction of any inherent or potential conflicts of interest in dealing with specific investment advisers prior to taking any official action, and
- adherence to the City Council Code of Professional Ethics.

10. The City will develop and implement an ongoing risk control program, including
    - ongoing compliance reviews,
    - delivery versus payment,
    - third-party custody,
    - prohibitions against self-dealing,
    - independent audits,
    - timely reconciliations, and
    - other appropriate internal control measures.

References

- *An Elected Official's Guide to Investing*, M. Corinne Larson, GFOA, 1995.
- *An Introduction to Investment Advisers for State and Local Governments*, M. Corinne Larson, GFOA 1996.
- *Investing Public Funds, Second Edition*, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA 1998.

Adoption Date: June 26, 2001	Policy Level: **2**

C19 Use of Derivatives for Cash Operating and Reserve Portfolios

Background

Derivative products are financial instruments created from or whose value depends on (is derived from) the value of one or more underlying assets or indexes of asset vlues. Derivatives include instruments or features such as collateralized mortgage obligations (CMOs), interest-only (IOs) and prinicipal-only (POs) securities, forwards, futures, currency and interest rate sweeps, options, floaters/inverse floaters, and caps/floors/collars. It is the City of Belmont's responsibility to determine what constitutes a derivative product and what is allowable by policy and statute.

Policy

The City of Belmont exercises extreme caution in the use of derivatives and considers their use only when a sufficient understanding of the products and the expertise to manage them has been developed. Because new derivative products are increasingly complex, the City of Belmont uses these instruments only when the following factors have deemed it appropriate:

1. The City of Belmont observes the objectives of sound asset and liability management policies that ensure safety, liquidity, and yield within legally allowable investments. Because of the risks involved, Belmont uses particular scrutiny when considering the use of derivatives. Certain derivative products may not be appropriate, such as those products that include high price volatility, illiquid markets, products that are not market-tested, highly leveraged products, products requiring a high degree of sophistication to manage, and products that are difficult to value.

2. In considering the use of derivatives, Belmont examines the following considerations:

    - Belmont's constitutional and statutory authority to execute derivative contracts,
    - the potential for violating constitutional or statutory provisions limiting Belmont's authority to incur debt resulting from the transaction, and
    - the application of Belmont's procurement statutes to derivative transactions.

3. All of the risks associated with the use of derivatives will be considered, including counterparty credit, custodial, market, settlement, and operating risk.

4. Belmont has established internal controls for each type of derivative in use to ensure that these risks are adequately managed. For example:

    - Belmont provides a written statement of purpose and objectives for derivative use;
    - written procedures are established that provide for periodic monitoring of derivative instruments;

- managers receive periodic training and have sufficient expertise and technical resources to oversee derivative programs;
- recordkeeping systems are sufficiently detailed to allow governing bodies, auditors, and examiners to determine if the program is functioning in accordance with established objectives; managers will report regularly on the use of derivates to their governing body and appropriate disclosure is made in official statements and other disclosure documents; and
- reporting on derivative use is in accordance with generally accepted accounting principles. Because use of these instruments is a complex matter, early discussion with public accountants will be exercised in order to determine if specialized reporting may be required.

5. Belmont will make the determination if their broker/dealer will merely act as an agent or intermediary in a derivatives transaction, or take a proprietary position. Possible conflicts of interest will be examined and taken into consideration before entering into a transaction.

6. Because there may be little or no pricing information or standardization for some derivatives, Belmont will make competitive price comparisons before entering into a transaction.

7. The City of Belmont exercises caution in the selection of broker/dealers or investment managers and ensures that these agents are knowledgeable about, understand and provide disclosure regarding the use of derivatives, including benefits and risks. Belmont will secure written acknowledgement from broker/dealers that they have received, read, and understood Belmont's debt and investment policies. This acknowledgement includes whether derivatives are currently authorized under Belmont's investment policy, and that the broker/dealer or investment manager has ascertained that the recommended product is suitable for Belmont.

8. Belmont accepts responsibility for ensuring this same level of safeguards when a third party acting on behalf of the City of Belmont conducts derivative transactions.

9. Belmont will analyze the materiality of a transaction closely to determine if it might affect a bond or other credit – related rating of such entity. Before a transaction is completed, rating agencies will be notified at the appropriate time.

References

- *A Public Investor's Guide to Money Market Instruments, Second Edition*, M. Corinne Larson, GFOA, 1994.
- *An Elected Official's Guide to Investing,* M. Corinne Larson, GFOA 1995.

Adoption Date:
June 24, 2003

Policy Level:
2

C20 Use of Positive Pay Versus Reverse Positive Pay

Background

Positive pay is becoming the leading method of check fraud deterrence available today. This process entails a daily reconcilement of an issuer's checks to checks presented for payment to the issuer's bank to identify potentially fraudulent checks. For those entities unable to use positive pay, GFOA recommends that such entities use reverse positive pay. However, positive pay is a stronger deterrent to check fraud.

Positive pay allows an issuer and its bank to work together to detect check fraud by identifying items presented for payment that the issuer did not issue. Under positive pay, an issuer prepares a formatted-checks issued data file (including check number, amount and date as well as other bank and account information) and transmits this data to its bank. Stop payments, voided checks and manual checks can also be included in the formatted-checks issued file. The bank compares checks received for payment against the record of all issued checks. The bank identifies items that do not match the issue amount and check number. The bank may offer additional services to identify checks that exceed certain dollar amounts and "stale" (dated) checks. The bank presents the rejected items to the issuer for its consideration for payment.

Reverse positive pay is similar to positive pay, but the process is reversed, with the issuer, not the bank, maintaining the list of checks issued. When checks are presented for payment the issuer's bank prepares a file of the checks, account numbers, serial numbers, and dollar amounts and sends the file to the issuer. The issuer then compares the information to its internal records. The bank is notified which checks to pay or reject.

Policy

The City of Belmont uses positive pay as the primary check clearance process in banking services agreements. This service has been included as part of an overall program of check fraud protection, including secure file transmission.

The City of Belmont should have specific knowledge of its exposure to loss with both the insurance carrier, if any, and the banking institution. The City of Belmont will understand its depository bank's policy on check fraud and liability for loss.

References

- *Technology for Treasury Management,* Nick Greifer, GFOA, 2001.

Adoption Date: June 22, 2004	Policy Level: **2**

City of Belmont Financial Policies

DEBT MANAGEMENT

D1 Debt Issuance and Management Parameters

Background

A comprehensive debt policy sets forth the parameters for issuing debt and managing the debt portfolio and provides guidance to decision makers. These parameters recognize a long-term commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to the parameters helps to ensure that Belmont maintains a sound debt position and that its credit quality is protected. A policy regarding debt issuance and management parameters is beneficial because it enhances the quality of decisions, rationalizes the decision-making process, identifies objectives for staff to implement, demonstrates a commitment to long-term financial planning objectives and is viewed positively by the rating agencies.

Policy

The City of Belmont has developed a comprehensive debt policy. The following parameters are to be considered before debt issuance:

1. The purposes for which debt may be issued shall be deferred;
2. Legal debt limitations or limitations established by policy, including limitations on the Pledge of the issuer's general credit shall be calculated;
3. Use of moral obligation pledges shall be considered;
4. Types of debt permitted to be issued are:
    - short-term and long-term debt,
    - general obligation and revenue debt,
    - fixed and variable rate debt,
    - lease-backed debt,
    - special obligation debt such as assessment district debt,
    - pension obligation bonds
    - conduit issues, and
    - taxable debt;
5. Structural features that may be considered before issuance, such as:
    - maturity of the debt,
    - setting the maturities of the debt equal to or less than the useful life of the project,
    - use of zero coupon bonds, capital appreciation bonds, deep discount bonds, or premium bonds,
    - debt service structure (level debt service payments, level principal payments or other repayment structure defined by state law),
    - redemption provisions (mandatory and optional call features),
    - use of credit enhancement,
    - use of senior lien and junior lien obligations, and
    - use of derivative products;
6. Additional consideration shall be given to credit objectives, such as:
    - maintenance of specific credit ratings, and
    - adherence to benchmark direct and overall debt ratios and other affordability targets;

7. Authorized methods of sale shall be considered on a case by case basis, including:
    - competitive sale,
    - negotiated sale, and
    - private placement;
8. Method of selecting outside finance professionals shall be consistent with the method of sale;
9. Refunding of debt calculations;
10. Primary and secondary market disclosure practices;
11. Compliance with federal tax law provisions, such as arbitrage requirements;
12. Integration of capital-planning and debt-financing activities; and
13. investment of bond proceeds where otherwise not covered by explicit written law or written investment policy.

In order to be an effective management tool, the parameters of the debt issuance and management must be compatible with the city's goals pertaining to the capital program and budget, the financial plan, and the operating budget. Debt parameters should strike an appropriate balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities. Finally, the Finance Commission should consider debt parameters on a given issuance, and the debt program should be continuously monitored to ensure that it is in compliance with these parameters.

References

- Developing Formal Debt Policies," *Government Finance Review*, August 1991.
- "Preparing a Municipal Debt Policy Statement," *Government Finance Review*, June 1994.
- Audio Cassette Tape, GFOA Annual Conference Session, "Debt Affordability Analysis: A Comparative Approach," 1996.

Adoption Date:
June 26, 2001

Policy Level:
1

D2 Analyzing Debt Capacity and Establishing Debt Limits

Background

When Belmont issues bonds, it enters into a long-term commitment that requires the City to make timely principal and interest payments over the life of the bonds. Hence, the need to ensure that future debt service payments to bondholders can be made in full and on time, without jeopardizing the provision of essential services; an acceptable degree of flexibility, including sufficient revenues, to meet unanticipated expenditures and accommodate revenue fluctuations; outstanding debt obligations will not threaten long-term financial stability; and the amount of outstanding debt will not place undue burden on community residents and businesses. A comprehensive and routine analysis of debt capacity provides assurance that the amount of debt issued by Belmont is affordable and cost-effective. By analyzing debt capacity and establishing appropriate limits on debt issuance the City of Belmont is better able to keep debt at affordable levels.

Policy

The City of Belmont will undertake an analysis of their debt capacity prior to issuing bonds. An analysis of debt capacity should cover a broad range of factors, including:

1. statutory or constitutional limitations affecting the amount that can be issued, such as:
   a. legally authorized debt limits, and
   b. tax or expenditure ceilings;
2. other legal limitations, such as coverage requirements or additional bonds tests imposed by bond covenants;
3. measures of the tax and revenue base, such as:
   a. projections of key, relevant economic variables (e.g., assessed property values, employment base, unemployment rates, income levels, and retail sales),
   b. population trends,
   c. utilization trends for services underlying revenues, and
   d. factors affecting tax collections, including types of property, goods, or services taxed, assessment practices, and collection rates;
4. evaluation of trends relating to Belmont's financial performance, such as:
   a. revenues and expenditures,
   b. net revenues available after meeting operating requirements,
   c. reliability of revenues expected to pay debt service, and
   d. unreserved fund balance levels;
5. debt service obligations, such as:
   a. existing debt service requirements, and
   b. debt service as a percentage of expenditures, or tax or system revenues;
6. measures of debt burden on the community, such as:
   a. debt per capita,
   b. debt as a percentage of personal income,
   c. debt as a percentage of full or equalized assessed property value, and
   d. overlapping or underlying debt; and
7. tax-exempt market factors affecting interest costs, such as:
   a. interest rates,

b. market receptivity, and
c. credit rating.

Prior to any debt issuance Belmont will review the debt limitations based on their analysis of debt capacity. This provides formal guidance to policy makers and Belmont officials when making decisions on the amount of debt to issue. It also is essential for effective management of debt capacity that debt-planning activities be integrated with the capital-improvement planning process. This ensures that an appropriate balance is struck between the City's capital needs and its ability to pay for them.

References

- Audio Cassette Tape, GFOA Annual Conference Session, "How Much Debt Is Too Much Debt," 1995.
- Audio Cassette Tape, GFOA Annual Conference Session, "Debt Affordability Analysis: A Comparative Approach," 1996.
- *Standard & Poor's Municipal Finance Criteria 1996*, Standard & Poor's, New York.

Adoption Date:
June 26, 2001

Policy Level:
2

D3 Issuing Taxable Debt by U.S. State and Local Governments

Background

Taxable debt is commonly issued by governments around the world to finance capital projects. While the City of Belmont has traditionally relied on tax-exempt debt, the globalization of capital markets has increased the viability of taxable debt as a financing option. If Belmont is looking to expand the market for their debt or gain financing flexibility, may find it advantageous to issue taxable debt. Some advantages are:

- *volume cap restraints that have restricted Belmont's ability to undertake housing, environmental, and other critical projects;*
- *private activity bond rules that have limited the ability of Belmont to enter into public-private partnerships that may be advantageous to a community;*
- *broader market access to pension funds and other investors, including those outside the U.S. domestic market, that prefer taxable interest rates; and a desire to avoid burdensome arbitrage regulations.*

Policy

The City of Belmont will develop a thorough understanding of the differences between the tax-exempt and taxable markets before proceeding with a planned sale. The City will conduct an analysis of how these differences would affect the jurisdiction's overall financial plan and ability to manage its debt program. In evaluating whether to issue taxable debt, Belmont should:

1. Ensure that it is legally authorized to issue taxable debt and consult bond counsel to specifically addresses when taxable debt may be used.
2. Develop an understanding of the market well in advance of the planned sale, including types of investors, structural features, and size requirements needed to attract investor interest. It is important to remember that taxable debt may be subject to different types of federal, state, and local laws than tax-exempt debt.
3. Ensure that the taxable debt will be valid under applicable state constitutional and statutory provisions. The various state law requirements relating to public purpose and lending of credit apply to taxable as well as tax exempt debt, and taxable offerings often must meet the same requirements as an issuer's tax-exempt debt. For instance, issuers should not assume that the absence of federal tax code restrictions on "private activity bonds" will permit the issuance without restriction of taxable bonds that benefit private entities.
4. Evaluate the total cost of issuing taxable debt, including legal, marketing, and other up-front costs and the interest cost over the life of the bonds, in relation to the financing objectives to be achieved. The cost of taxable debt will generally be higher because investors are not able to deduct interest earnings from taxable income. Consideration also should be given as to how proceeds will be invested to minimize possible negative arbitrage.
5. Allow sufficient time to educate potential investors, who may be less familiar with Belmont credit, about the offering and the issuer. Care should be taken to properly label an issuer's debt as taxable so that investors and other interested parties are able to distinguish it from tax-exempt debt.
6. Consider structural features that can provide long-term benefits, such as amortizing debt as quickly as possible or embedding early call provisions in order

to have the ability to call debt if the project being financed generates excess cash flows. Issuers should recognize that some features that enhance flexibility, such as an early call provision, may be more costly to exercise for taxable debt than for tax-exempt debt.

7. Evaluate the market for taxable Belmont bonds prior to the pricing process, including identification of comparable issues and interest rates, including the use of variable rate debt. Issuers, independently or with their financial advisors or underwriters, should be especially vigilant since less frequent issuance of taxable Belmont bonds increases the risk that Belmont may pay an interest rate penalty when its bonds are priced.
8. Evaluate whether there are advantages to selling bonds outside of the U.S. domestic market and the costs associated with this approach, such as the costs of registering with a foreign exchange. Legal counsel familiar with particular international capital markets should be involved in order to review specific regulatory and disclosure requirements that may differ from U.S. markets. Also, Belmont must be sure they have sufficient staff time and expertise to manage debt offered in the international marketplace.

References

- *"Taxable Municipal Securities: At Home and Abroad,"* Government Finance Review, February 1987.
- *"A Cross Section of Opinion on Taxable Municipal Bonds,"* Government Finance Review, February 1987.

Adoption Date: June 26, 2001	Policy Level: **2**

D4 Securitization of Leases

Background

Leasing is an important financing option for the City of Belmont. Lease agreements with private vendors or real estate developers provide Belmont with equipment and buildings to meet the needs of the public. The securitization of leases--selling leases as certificates of participation (COPs) after they were originally structured as whole private placements--can create severe problems for Belmont if the sale takes place without lessee approval and/or involvement.

Policy

Although there is nothing inherently wrong with Belmont securitizing their lease holdings, the City will take certain actions to control the marketing of securities associated with its name and to ensure appropriate disclosure has been made. The actions are:

1. Belmont has instituted a process that centralizes all information on leases to ensure that the Finance Director has full knowledge of any lease agreements undertaken by any department in Belmont.
2. The original lease documents should explicitly state what is and is not permissible regarding secondary-lease securitization and they require that any secondary-lease documents clearly indicate:
   - the role and responsibility, if any, of Belmont as part of the lease offering, including any relationship between the lessee and the new investors; and
   - that the offering is a secondary offering and whether all requirements relating to the tax exemption of the securities have been met.
3. Since secondary-lease securitization may raise legal and tax questions, the lessee requires that Belmont obtain all necessary legal opinions prior to a public offering of a secondary-lease transaction.

References

- *Moody's on Leases*, Moody's Investors Service, Public Finance Department, 1995.

Adoption Date: June 26, 2001	Policy Level: **2**

D5 Using Variable Rate Instruments

Background

Variable rate debt can be an important tool in managing Belmont's debt program. When issued prudently, variable rate debt can help lower the cost of borrowing and provide a hedge against interest rate risk. Interest rates on variable rate debt instruments are at the short end of the yield curve because they are periodically adjusted (e.g., daily, weekly, monthly) based on current market conditions. Variable rate debt is commonly issued in the form of variable rate demand obligations (VRDOs), which give investors the right to "put" securities back to the issuer at their discretion at specified future intervals.

When issuing VRDO bonds, Belmont will need to have a tender agent to repay principal and interest to investors who choose to put back their bonds to Belmont and a remarketing agent to find new investors to purchase these securities. Additionally, the rating agencies may require a liquidity provider to cover deficits that may occur if all bonds cannot be remarketed. Tax-exempt commercial paper programs can be structured to resemble longer-term variable rate debt, and generally have the same liquidity requirements as VRDOs. Belmont can also achieve the benefits of variable rate debt through fixed-to-floating interest rate swaps, which have risk characteristics. As a general rule, some rating agencies recommend that variable rate debt not exceed 10-20 percent of total bonds outstanding, although other factors may affect their evaluation of the amount they regard as acceptable.

Policy

If the City of Belmont is planning to issue variable rate debt they will carefully evaluate their objectives and consider how this debt will be managed over the long term. Issuance of variable rate debt is guided by Belmont's overall financial and debt management objectives and its financial condition. In particular, Belmont will:

1. Review statutes or ordinances governing the issuance of debt to ensure that issuance of variable rate debt (including particular instruments) is permitted and to understand any conditions, such as amounts, interest rate ceilings, or requirements governing debt-related funds.
2. Ensure that Belmont's debt policy specifically addresses the use of variable rate debt, including goals to be achieved, permitted instruments, amounts that may be issued, and steps to minimize risk.
3. Consider the ability of Belmont to manage variable rate debt including staff requirements to monitor market conditions; record interest rate changes; make adjustments to budgets and financial plans as needed; and manage relationships with investors, liquidity providers, and remarketing agents.
4. Evaluate the impact on debt service requirements assuming different interest rate scenarios and develop appropriate contingency plans for a rising interest rate environment, including setting aside reserves consistent with applicable arbitrage regulations or purchasing hedging instruments. Belmont will also consider the impact of changing interest rates on rate covenants and its financial position.
5. Evaluate the total cost of issuing variable rate debt, including fees to tender agents, remarketing agents, and liquidity providers under expected and adverse

scenarios (e.g., if tendered bonds cannot be immediately remarketed). If Belmont is considering an interest rate cap, the cost of purchasing the instrument will also be assessed in relation to interest rate risk exposure.

6. Evaluate the need for an externally provided liquidity facility. If needed, Belmont will undertake an evaluation of possible providers, including their credit rating, the impact of a possible change in this rating, and renewal provisions.
7. Develop a full understanding of the unique risks that arise when variable rate payments are realized through an interest rate swap, including counter party risk, basis risk, rollover risk, and termination risk.

References

- *"Variable Rate Debt and Minneapolis' Debt Management Policy,"* Government Finance Review, GFOA, April 1988.
- *"Debt Markets and Instruments", Local Government Finance: Concepts and Practices*, GFOA, 1991.
- *"An Issuer's Perspective on Interest Rate Swaps,"* Government Finance Review, GFOA, October 1992.
- GFOA Recommended Practice, *"Use of Derivatives by State and Local Governments,"* 1994.
- *"Credit Impact of Short-Term and Variable-Rate Debt,"* Standard & Poor's CreditWeek Municipal, September 30, 1996.
- Dall W. Forsythe, *"Managing Interest Rate Exposure: Some Simple Tools for Financial Managers,"* Government Finance Review, GFOA, August 1996.

Adoption Date: June 26, 2001	Policy Level: **2**

D6 Selecting and Managing the Method of Sale

Background

It is in the interest of the City of Belmont to sell public debt using the method of sale that is expected to achieve the best sales results, taking into account both short-range and long-range implications for taxpayers and ratepayers. However, there is a divergence of views as to the relative merits of the competitive and negotiated methods of sale due to the lack of comprehensive, empirical evidence that would favor one method over the other. Furthermore, in negotiated sales, there is concern about the fairness of the selection process and the possibility of higher borrowing costs because of the potential for underwriter selection on the basis of political favoritism rather than merit and cost. There also is the recognition that conflicts of interest may arise because of agreements by and between outside financial professionals involved in the transaction.

Policy

Belmont has adopted policies to ensure that the most appropriate method of sale is selected in light of financial, market, and transaction-specific and issuer-related conditions; the method of sale is evaluated for each bond issue, including an assessment of the different risks associated with each method; and thorough records are kept about the process to demonstrate that it was equitable and defensible.

The City will pursue the <u>competitive method</u> of sale when conditions favoring this method of sale are present. Such conditions include the following:

1. The market is familiar with the issuer, and the issuer is a stable and regular borrower in the public market.
2. There is an active secondary market with a broad investor base for the issuer's bonds.
3. The issue has an unenhanced credit rating of A or above or can obtain a credit enhancement prior to the competitive sale.
4. The issuer’s full faith and credit or a strong, known or historically performing revenue stream backs the debt structure.
5. The issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sales effort.
6. The issue is not viewed by the market as carrying complex or innovative features or requiring explanation as to the bonds' soundness.
7. Interest rates are stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable price changes.

While issuers often use negotiated sales to address public-policy issues such as the desire for disadvantage business enterprise (DBE) and regional firm participation in the syndicate and the allocation of bonds to such firms, they may be able to meet these goals by specifying their requirements in the notice of sale.

If conditions do not allow for a competitively bid bond sale, the City will use the following practices:

1. Promote fairness in a <u>negotiated sale</u> by using a competitive underwriter-selection process that ensures that multiple proposals are considered.
2. Remain actively involved in each step of the negotiation and sale processes to uphold the public trust.

3. Ensure that either an employee of the issuer or an outside professional other than the issue underwriter, who is familiar with and abreast of the condition of the municipal market, is available to assist in structuring the issue, pricing, and monitoring sales activities.
4. Avoid using a firm to serve as both the financial advisor and underwriter of an issue because conflicts of interest may arise.
5. Require that financial professionals disclose the name(s) of any person or firm compensated to promote the selection of the underwriter; any existing or planned arrangements between outside professionals to share tasks, responsibilities and fees; the name(s) of any person or firm with whom the sharing is proposed; and the method used to calculate the fees to be earned.
6. Review the "Agreement Among Underwriters" and ensure that it governs all transactions during the underwriting period.

References

- *An Elected Official's Guide to Debt Issuances*, J.B. Kurish and Patricia Tigue, GFOA, 1993.
- *Debt Issuance and Management: A Guide for Smaller Governments*, James C. Joseph, GFOA, 1994.
- *Competitive v. Negotiated: How to Choose the Method of Sale for Tax-Exempt Bonds*, GFOA, 1994.
- *Competitive v. Negotiated Sale Debt*, Issue Brief No. 1, California Debt Advisory Commission, September 1992.

Adoption Date: June 26, 2001	Policy Level: **2**

D7 Pricing Bonds in a Negotiated Sale

Background

One of the most important outcomes of the sale of bonds, the cost of borrowing, is established through the pricing process. Unlike a competitive sale, bond pricing in a negotiated sale requires a much greater degree of Belmont's involvement. The Belmont issuer negotiates both the yield on the bonds and the underwriters' compensation, which includes the takedown (or sales commission), management fee, underwriting risk, and expenses. Belmont issuer's success in negotiating the price of its bonds depends on its ability and willingness to devote sufficient time to understanding the market and the historical performance of its bonds.

Policy

The City of Belmont strives for the best balance between the yield for each maturity and the takedown (sales commission) to achieve the lowest overall cost of financing. The following actions by Belmont are to improve the pricing process:

1. Communicate to the underwriter specific goals to be achieved in the pricing of bonds and expectations regarding the roles of each member of the financing team, including the Belmont issuer and an independent financial advisor employed to assist in the pricing process. Identify the Belmont representative who has authority to make key decisions and be available throughout the pricing process.
2. Take steps during the underwriter selection process and prior to final pricing to manage the compensation to underwriters (also called underwriter discount or gross spread) by:

- including a provision in the request for proposal that requires respondents to indicate the range of costs for each component of compensation and specify an expected maximum for each,
- setting a cap on fees and expenses, and
- obtaining and reviewing information on each component of underwriters' compensation for other recent similar sales.

3. Develop an understanding of prevailing market conditions, evaluate key economic and financial indicators, and assess how these indicators likely will affect the timing and outcome of the pricing. Obtain a pricing book from the underwriter and/or the financial advisor which would include the following information:

- the supply and expected demand for municipal bonds;
- the release of key economic indicators, actual or anticipated actions by regulatory or political bodies, and other factors that might affect the capital markets;
- the interest rates and current market yields of recently priced and outstanding bonds with similar characteristics;
- the interest rates and interest rate indices for bonds with similar

characteristics provided by independent services that track pricing performance; and
- the historic benchmark index data for the bond issue being sold and for other bond issues being sold.

4. Work with the underwriter to develop an appropriate premarketing effort to gauge and build investor interest. Consider inclusion of a one- or two-day retail order period.
5. Request that the senior managing underwriter propose a consensus pricing scale on the day prior to the pricing that represents the individual views of the members of the underwriting syndicate and obtain a number of interest rate scales from other syndicate members.
6. Evaluate carefully whether structural features, such as call features and original issue discount, that impact the true interest cost (TIC) of a bond offering, but limit future flexibility in managing the debt portfolio, will result in greater overall borrowing costs.
7. Belmont issuers have a legitimate role in determining how bonds will be allocated among syndicate members and ultimate investors. Belmont issuers consider order priority and the designation policies in reviewing the preliminary pricing wire and the Agreement Among Underwriters prior to the sale. To a large extent the designation policy controls the distribution of underwriter compensation among the syndicate members.
8. During the marketing of the bonds, the Belmont issuer will obtain sufficient current market information and be in close contact with the lead underwriter. Consider repricing at lower interest rates at the end of the order period, giving consideration to order flow and order volumes.
9. The Belmont issuer reviews the proposed allotments of the bonds to ensure achievement of the Belmont issuer's objectives.
10. Evaluate the bond sale after its completion to assess the level of up-front costs of issuance, including whether the underwriters' compensation was fair given the level of effort and market conditions; and the pricing of the bonds, both in terms of the overall TIC and on a maturity-by-maturity basis.
11. Develop a database with information on each Belmont issue sold with regard to pricing performance, including the types of bonds sold (general obligation or revenue bonds), credit rating, maturities, yield and takedown by maturity, and the TIC.

References

- GFOA Recommended Practice – Selecting and Managing the Method of Sale of State and Local Government Bonds, 1994.
- *Pricing Bonds in a Negotiated Sale: How to Manage the Process*, J.B. Kurish, GFOA, 1994.
- GFOA Recommended Practice – Preparing RFPs to Select Financial Advisors and Underwriters, 1997.

Adoption Date:
June 26, 2001

Policy Level:
2

D8 Payment of the Expense Component of Underwriters' Discount

Background

When using the negotiated method of sale for tax-exempt bonds, the compensation to underwriters consists of four components: takedown, management fee, underwriting risk, and expenses. The expense component is made up of costs incurred by the underwriter on behalf of the City for such expenses as travel, underwriters' counsel, printing and mailing, and closing costs. Unless Belmont takes specific actions, they may pay for unreasonable expenses by the senior managing underwriter, and other members of the underwriting syndicate may be inappropriately charged for such expenses.

Policy

The City of Belmont will clearly communicate to the senior managing underwriter the expenses they view as legitimate and their expectations regarding payment of expenses by members of the underwriting syndicate. Issuers need to be sure that the expense component represents charges for items that are necessary to complete the financing, since paying for nonessential expenses reduces the amount of proceeds for capital projects or other Belmont activities. Moreover, permitting the underwriter to charge members of the underwriting syndicate for expenses, without the knowledge of the issuer, by reducing the takedown or management fee, may compromise Belmont's goals, such as rewarding sales or other efforts by members of the syndicate.

To ensure that expenses are reasonable and explicitly identified, Belmont will take the following actions:

1. Require firms proposing to serve as senior managing underwriter to present in their proposal an itemized list of expenses that they expect to incur and how they will be paid, either by the issuer or by members of the underwriting syndicate. Underwriters are required to explain and justify any expense component that is not clearly understood by the City.
2. Convey clearly to the firm selected as senior managing underwriter the expenses that the City regards as legitimate and those that the City does not view as reasonable. Among the expenses that may be regarded as legitimate are:
    - compensation for underwriters' counsel;
    - travel to and from the Belmont offices;
    - fees for transmitting information on interest rates, takedowns, and priority of orders;
    - interest/day loan costs;
    - charges for communication, including the rating agency presentation, mailing, printing, and telephone expenses;
    - documented clearing charges; and
    - closing costs.

   Expenses that Belmont may deny are incidents to the transaction, including the Public Securities Association's underwriting assessments, entertainment expenses, computer-run charges, and undocumented clearing charges.
3. Pay particular attention to fees for underwriters' counsel, as this generally is one of the most significant expense components paid by the issuer. Belmont will

consider setting a cap on fees paid to underwriters' counsel.

4. Require the senior managing underwriter to explicitly document all expenses incurred on behalf of the City in a negotiated sale, as well as any expenses charged to members of the underwriting syndicate. The senior managing underwriter must explain any expenses not included in the original proposal.

References

- *Debt Issuance and Management: A Guide for Smaller Governments*, James C. Joseph, GFOA, 1994.
- *Understanding the Underwriting "Spread,"* Issue Brief No. 2, California Debt Advisory Commission, March 1993.

Adoption Date: June 26, 2001	Policy Level: **2**

D9 Selecting Bond Counsel

Background

An essential member of the bond financing team of the City of Belmont is bond counsel. Bond counsel renders an opinion on the validity of the bond offering, the security for the offering, and whether and to what extent interest on the bonds is exempt from income and other taxation. The opinion of bond counsel provides assurance both to Belmont and to investors who purchase the bonds that all legal requirements are met. Belmont will gain assurance that its bond counsel has the necessary expertise to provide an opinion that can be relied on and will be able to assist Belmont in completing the transaction in a timely manner.

Policy

The City of Belmont selects bond counsel on the basis of merit using a competitive process. A competitive process using a request for proposals (RFP) or request for qualifications (RFQ) process permits Belmont to compare qualifications of firms and select a firm or firms that best meets their needs. The RFP or RFQ will clearly describe the scope of services desired, the length of the engagement, evaluation criteria, and the selection process. The City has also developed a practice related to selecting financial advisors and underwriters that provides advice on setting up an objective RFP process, advice which is also generally applicable to the selection of bond counsel.

The RFP or RFQ will require firms proposing to serve as bond counsel to submit information that permits Belmont to evaluate the following factors, at a minimum:

1. The experience of the firm with regard to financings the City of Belmont in the past or comparable cities, and financings of similar size, types and structures, including financings in the same state.
2. The experience of the firm with federal, state, and other laws including tax matters.
3. The experience of the firm with and its approach to applicable federal securities laws and regulations.
4. The knowledge and experience of the attorneys that would be assigned to the transaction, particularly the individual with day-to-day responsibility for Belmont’s account.
5. The ability of the firm and assigned personnel to evaluate legal issues, prepare documents, and complete other tasks of a bond transaction in a timely manner.
6. Relationships or activities that might present a conflict of interest for Belmont, including financial relationships with other firms providing services that Belmont will procure for a bond issue.

In making the final selection of bond counsel, Belmont will consider the following factors:

1. Belmont will evaluate the oral interviews of candidates, in which the attorney who would have day-to-day responsibility for Belmont's account should be asked to assume the lead role in presenting the qualifications of the firm.
2. Proposed fees should not solely drive the selection. The experience of the firm with the type of transactions contemplated by Belmont is the most important

factor in the selection of bond counsel.
3. For ongoing needs of a similar nature, continuity is an important factor.
4. While bond counsel fees typically have been contingent on the sale of bonds, fees based on this arrangement may create an incentive to provide opinions that would allow the inappropriate issuance of bonds. Fees based on an hourly, retainer or fixed fee arrangement may more appropriately reflect the complexity and scope of the services provided.
5. Before making a final selection, Belmont should check the references furnished by the prospective bond counsel.

Once a bond counsel team is selected, Belmont will enter into professional services agreement with the firm as required by state and local law and procurement codes. Belmont should consider using the form of the model engagement letter for governmental bonds suggested by the National Association of Bond Lawyers.

If co-bond counsel are being engaged, Belmont should

- delineate in the RFP or engagement letter the roles and responsibilities of each firm;
- assign discrete tasks to each firm in order to minimize cost duplication; and
- exercise appropriate oversight to ensure coordination of tasks undertaken by the firms.

If co-bond counsel are engaged or if bond counsel firms are rotated, Belmont should

- evaluate whether higher costs for legal services will result because of the need for two or more firms to familiarize themselves with Belmont; and
- consider the possible need to resolve differing viewpoints of each bond counsel.

Throughout the term of the engagement, the performance of bond counsel should be evaluated in relation to the stated scope of services and any areas where service needs to be improved should be communicated to the lead attorney. Ongoing contracts should be reviewed regularly and re-subjected to competitive selection periodically.

References

- *"Selection and Evaluation of Bond Counsel,"* National Association of Bond Lawyers, 1988.
- *"Preparing RFPs to Select Financial Advisors and Underwriters,"* GFOA Recommended Practice, 1997.
- *Model Engagement Letter for Governmental Bonds,* National Association of Bond Lawyers.

A Guide to Selecting Financial Advisors and Underwriters: Writing RFPs and Evaluating Proposals, Patricia A. Tigue, GFOA, 1997.

Adoption Date:
June 26, 2001

Policy Level:
2

D10 Selecting Financial Advisors and Underwriters

Background

The City of Belmont frequently employs underwriters for a negotiated sale and financial advisors for either a competitive or negotiated sale to assist in the structuring and issuance of debt. A request for proposal (RFP) will assist Belmont in selecting the most qualified professionals.

Policy

The City of Belmont will use an RFP process when selecting underwriters for a negotiated sale only and financial advisors because it promotes fairness and objectivity, allows the City to compare respondents and helps to obtain the best price and level of service. The City must have a clear understanding of their needs (transaction-specific or ongoing) and carefully develop an RFP that complies with the Belmont bidding requirements. Additionally, the RFP should:

- Provide a clear and concise description of the scope of work, specify the length of the contract and indicate whether joint proposals with other firms are acceptable;
- include objective selection criteria and explain how proposals will be evaluated;
- require all fee structures to be presented in a standard format and ask proposer to identify which fees are to be proposed on a "not-to-exceed" basis, describe any condition attached to their fee proposal, and explicitly state which costs are included in the fee proposal and which costs are to be reimbursed; and
- require at least three references from other public-sector clients.

RFPs questions related to the areas listed below are included to distinguish firms' qualifications and experience, including:

- relevant experience of the firm and the individuals assigned to the issuer, identification of the individual in charge of day-to-day management and the percentage of time committed for each individual on the account;
- the respondent's ideas on how the issuer should approach the financing, including the structure of the offering, credit-rating strategy, and investor-marketing strategy;
- the analytic capability of the firm and assigned individuals and ongoing employee training programs;
- the availability of sources of information to assist in bond pricing;
- the amount of uncommitted capital available and the ability and willingness of the firm to purchase the entire offering of the issuer, if necessary, in the case of underwriting firms;
- the level and types of insurance carried, including the deductible amount, to cover errors and omissions, improper judgments, or negligence; and
- any finder's fees, fee splitting, or other contractual arrangements of the firm that could present a real or perceived conflict of interest, as well as any pending investigation of the firm or enforcement or disciplinary actions taken within the past three years by the SEC or other regulatory bodies.

Fees paid to financial advisors should be on an hourly or retainer basis--reflecting the nature of the services to the issuer. They should not be contingent on the sale of bonds to remove the potential incentive for the financial advisor to recommend the issuance of bonds. Belmont issuers may want to include a provision in the RFP restricting any firm from engaging in activities on behalf of Belmont that produces a direct or indirect financial gain for the firm, other than the agreed-upon compensation, without Belmont, informed consent. Ongoing contracts should be reviewed periodically.

No firm should be given an unfair advantage. Procedures should be established for communicating with potential proposer, determining how and over what time period questions will be addressed, and determining when contacts with proposer will be restricted. Additionally, the City will:

1. Take steps to maximize the number of respondents by using mailing lists and advertisements.
2. Give at least one week for firms to develop their responses to the RFP, and longer depending on the nature of the RFP.
3. Establish evaluation procedures and a systematic rating process, conduct interviews with proposer, and undertake reference checks. Where practical, one individual should check all references using a standard set of questions to promote consistency. To remove any appearance of a conflict of interest resulting from political contributions or other activities, elected officials should not be part of the selection team.

Document how the selection was made and the rankings of each firm.

References

- *Preparing Requests for Proposals*, Issue Brief No. 3, California Debt Advisory Commission, October 1994.
- *Debt Issuance and Management: A Guide for Smaller Governments*, James C. Joseph, GFOA, 1994.
- *A Guide for Selecting Financial Advisors and Underwriters: Writing RFPs and Evaluating Proposals*, Patricia Tigue, GFOA, 1997.

Adoption Date: June 26, 2001	Policy Level: **2**

D11 Issuer's Role in Selection of Underwriter's Counsel

Background

Underwriter's counsel is employed to represent the underwriter in the offering of bonds. The duties of such counsel may include drafting bond purchase agreements, drafting official statements and coordinating disclosure documents. Such counsel also assists the underwriter in meeting its legal responsibilities generally in the issuance and sale of the bonds. While underwriter's counsel represents the underwriter, it is the practice of many issuers to have a role in selecting or approving underwriter's counsel. Among the reasons cited by issuers for being involved in the selection or approval of underwriter's counsel are the issuer's (1) need for assurance that underwriter's counsel is qualified and experienced and will give the highest priority to the transaction, (2) need for assurance that underwriter's counsel understands the issuer's finances and operations, disclosure practices, and other pertinent information, and will help promote full and complete disclosure, (3) desire to control the costs of the underwriter's counsel, which are typically paid directly or indirectly by the issuer, and (4) desire to avoid the use of firms where conflicts of interest or pending regulatory enforcement may exist.

Policy

The City of Belmont policies and procedures facilitate the selection of competent and independent underwriter's counsel. The City believes that issuers have a legitimate role in the engagement of underwriter's counsel, but recognizes that (1) the underwriter has a reasonable need to rely on such counsel's competence and confidential advice and (2) the potential for conflicts of interest exists if an issuer designates a firm to serve as underwriter's counsel. Among the procedures that can be used to facilitate selection of suitable counsel are the following:

1. The issuer may draw up a list of general qualifications or a list of acceptable firms and leave the final selection to the underwriter; or
2. The issuer may ask to review the qualifications of a firm proposed by the underwriter and provide feedback on the selection.

Firms should be evaluated based on:

- their general knowledge and experience with disclosure requirements,
- their understanding of the issuer and the securities being offered,
- their ability to complete the transaction in an orderly manner, and
- the absence of any conflicts of interest that might jeopardize the ability of the firm to carry out its responsibilities.

Belmont can also have a role in negotiating the cost of services performed by underwriter's counsel by reviewing the scope of legal services to be provided and obtaining a fixed, not-to-exceed, hourly rate, or other appropriate fee arrangement that takes into account the complexity of the transaction and the scope of counsel's work.
The underwriter bears the ultimate responsibility for the adequacy of its own counsel.
Any undue influence by an issuer, however, that calls into question the qualifications or independence of underwriter's counsel may create risk to the issuer and to the underwriter because of the increased potential of inadequate disclosure in the offering of the issuer's bonds and a reduced ability of the issuer to claim reliance on the expertise of its financing team.

References

- "Selection and Evaluation of Bond Counsel," National Association of Bond Lawyers, 1988.
- *Conflicts Arising from Multiple Representation*, Henry A. Kelly, American Law Institute - American Bar Association, October 17, 1991.
- *Disclosure Roles of Counsel in State and Local Government Securities Offerings,* Section of Urban, State and Local Government Law, American Bar Association, 1994.
- GFOA Recommended Practice--Preparing RFPs to Select Financial Advisors and Underwriters, 1997.
- *A Guide for Selecting Financial Advisors and Underwriters: Writing RFPs and Evaluating Proposals*, Patricia A. Tigue, GFOA, 1997.
- GFOA Recommended Practice--Selection of Bond Counsel, 1998.
- "Model Engagement Letter for Governmental Bonds," National Association of Bond Lawyers, 1998.

Adoption Date: June 26, 2001	Policy Level: **2**

D12 Underwriters Disclaimers in Official Statements

Background

While municipal securities are exempt from registration and reporting requirements of the federal securities laws, they are subject to the antifraud provisions. It is a violation of these antifraud provisions for any person--including municipal issuers and underwriters--to make false or misleading statements of material fact or omit any material fact causing such statements to be misleading.

The official statement for a securities offering is the City of Belmont's document and, as such, Belmont has responsibilities under the federal securities laws for its content, regardless of who prepares it. Others participating in the preparation of an official statement for either a competitive or negotiated sale--such as underwriters, attorneys, and financial advisors--also have legal responsibilities under the federal securities laws.

The Securities and Exchange Commission (SEC) references the inclusion of underwriter disclaimer language in footnote 103 of its 1994 Interpretive Release on disclosure obligations of Belmont and other municipal market participants. It states that, "In light of the underwriter's obligation…to review the official statement and to have a reasonable basis for its belief in the accuracy and completeness of the official statement's key representations, disclaimers by underwriters of responsibility for the information provided by the issuer or other parties, without further clarification regarding the underwriter's belief as to accuracy, and the basis therefor, are misleading and should not be included in official statements."

Underwriters, including the assertion that the underwriters do not guarantee the accuracy or completeness of the official statement have suggested disclaimer language. However, the City of Belmont believes such language is inappropriate.

The City believes inclusion of an underwriter disclaimer creates more concerns about obligations under the securities laws than it resolves, and could consequently increase the risk of confusing investors.

Policy

To the extent practical, the City Belmont will not include underwriter disclaimer language in official statements. The City further states that in the preparation of official statements Belmont should undertake an affirmative review to ensure that any such disclaimer language has not been included.

References

- *Recommended Uniform Disclosure Practice for Municipal Official Statements*. The Bond Market Association.

Adoption Date: June 26, 2001	Policy Level: **2**

D13 Maintaining an Investor Relations Program

Background

Investors are a primary source of capital for the City of Belmont. When Belmont sells bonds, it enters into a long-term contract to make timely debt service payments with investors who purchase the bonds initially as well as to future investors who will hold the bonds. An effective investor relations program that responds to investor needs and concerns can lower borrowing costs for issuers.

Policy

The City of Belmont has developed an investor relations program, commitment to provide annual financial, operating, and other significant information in a timely manner consistent with federal and state laws and Securities and Exchange Commission rules. Belmont may consider providing additional information to investors beyond that provided for in their contractual commitments. The investor relations program addresses the following:

1. Identify the individual who is responsible for speaking on behalf of the City of Belmont to the market and establish steps to ensure this individual is informed of any electronic communications of the City, including an Internet Home Page.
2. Develop procedures for identifying and selecting information, both positive and negative, to be made available to investors, including material events, changes in financial or operating position, and changes in government policies. Documents that might be a source of such information include:
   - annual budgets, financial plans, or comprehensive annual financial reports;
   - materials for Council meetings; and
   - ordinances or resolutions adopted by the City Council.
3. Develop procedures for disseminating information such that it gets to all parts of the market simultaneously and not just to selected investors. Procedures should address:
   - communicating material events or other significant information,
   - handling inquiries for financial reports or other information requested by investors, and
   - using electronic media.
4. Develop procedures to ensure potential investors receive a copy of the preliminary official statement at least one week in advance of a bond sale.
6. Identify ways to stay abreast of issues that are likely to be of concern to investors, such as Belmont's policies and practices pertaining to investments.
7. Develop and maintain a good relationship with the rating agencies, including sending them disclosure information routinely and keeping them informed of any changes that could affect credit quality and actions to address financial problems.
7. Establish procedures to ensure that financial statements or other information needed for disclosure purposes are completed on a consistent schedule from year-to-year and prior to the date established in any contractual commitments.
8. Delineate clearly the roles and disclosure responsibilities in conduit borrowings of the City of Belmont and the conduit borrower.
10. Engage in marketing activities to alert investors of a pending bond sale,

especially if the bonds are sold competitively and Belmont is a large and frequent issuer. Such activities may include preparation of special reports for investors, the scheduling of investor meetings or conference telephone calls and tours of facilities.

11. Identify investors who hold Belmont’s bonds to improve communications. If lists of investors are obtained from the senior managing underwriter or other sources, the City should consult counsel to determine whether such lists, which may be confidential information, become subject to state and local freedom of information requests once they are in the City's possession. The City should consider the implications for the relationship with investors and to protect confidentiality, the City may find it prudent to have a third party maintain the list.
12. Be aware that securities law issues may exist with respect to information provided by electronic means. Counsel should be consulted regarding the use of electronic media in connection with Belmont's debt program.

References

- Audio Cassette Tape, GFOA Annual Conference Session, "Investor Relations: The How and the Why," 1995.
- *Disclosure Guidelines for State and Local Government Securities*, GFOA, 1991.
- *Disclosure Handbook for Municipal Securities*, National Federation of Municipal Analysts, 1992 Update.

Adoption Date:
June 26, 2001

Policy Level:
2

D14 Analyzing an Advance Refunding

Background

An advance refunding is an important debt management tool. It is commonly used to achieve interest cost savings, remove or change burdensome bond covenants, or restructure the stream of debt service payments to avoid a default, or in extreme circumstances, an unacceptable tax or rate increase. Advance refundings, which are limited in number by federal tax law, must be carefully planned and undertaken to be successful.

Policy

The City of Belmont includes the following guidelines in their debt policies concerning advance refundings to provide guidance to decision makers. Formal policy guidelines:

- offer a systematic approach for determining if an advance refunding is cost-effective,
- promote consistency with other financial goals and objectives,
- provide the justification for decisions on when to undertake an advance refunding,
- ensure that staff time is not consumed unnecessarily in evaluating advance refunding proposals,
- ensure that some minimum level of cost savings is achieved, and
- reduce the possibility that further savings could have been achieved by deferring the sale of refunding bonds to a later date.

If an advance refunding is undertaken to achieve cost savings, the City should evaluate:

- issuance costs that will be incurred and the interest rate at which the refunding bonds can be issued,
- the maturity date of the refunded bonds,
- call date of the refunded bonds,
- call premium on the refunded bonds,
- structure and yield of the refunding escrow, and
- any transferred proceeds penalty.

One test often used by issuers to assess the appropriateness of an advance refunding is the requirement specifying the achievement of a minimum net present value saving. A common threshold is that the savings (net of all issuance costs and any cash contribution to the refunding), as a percentage of the refunding bonds, should be at least 3-5 percent. In certain circumstances, lower thresholds may be justified, such as if the advance refunding is being done for reasons other than economic savings, interest rates are at historically low levels and future opportunities to achieve more savings are not likely to occur, and the bonds to be advance refunded are approaching their call date.

Debt management practices should anticipate the potential for an advance refunding in the future. When bonds are issued, careful attention should be paid to sales practices that will affect flexibility. Some examples of such sales practices are:

- optional redemption provisions,
- bond coupon characteristics,

- giving up call rights for certain maturities in exchange for a lower interest rate on the bonds,
- call provisions that permit the redemption of bonds in any order of maturity or on any date,
- options that permit the issuer to call bonds at par at the earliest date possible without incurring an interest-rate penalty, and
- coupons on callable bonds priced as close to par as possible at the time of original issue.

Finally, it is important to create a refunding escrow that will produce the greatest savings and is efficient. An escrow is efficient if escrow securities mature or pay interest when debt service payments of the refunded issue are due. Issuers may purchase escrow securities in the open market or may purchase State and Local Government Securities (SLGS), a special series of U.S. Treasury securities. Each option must be evaluated, considering the yield of the escrow securities and the effect of any inefficiency. Among the issues that should be considered with regard to each type of instrument are the following:

1. Does the proposed instrument comply with the City's Investment Policy?
2. SLGS can be structured to comply with the federal tax law limits on investment return on escrow securities and eliminate any inefficiency in the escrow.
3. Open market securities may have a higher return but may not mature or pay interest on the date when debt payments are due. Issuers may be required to increase the issue size or blend higher- and lower-yielding securities to comply with yield-restriction requirements and generate sufficient revenues. Such inefficiency may be eliminated by future escrow substitutions. Additionally, forward supply agreements, guaranteed investment contracts, or float contracts also may be considered to minimize escrow inefficiencies. However, with these investment instruments, issuers need to be concerned with potential counter party risk.

References

- "Understanding Current and Advance Refundings," *Government Finance Review*, April 1992.
- *Debt Issuance and Management: A Guide for Smaller Governments*, James C. Joseph, GFOA, 1994.
- Audio Cassette Tape, GFOA Annual Conference Session, "Advance Refunding: Tips & Traps," 1996.

Adoption Date:
June 26, 2001

Policy Level:
2

D15 Investment of Bond Proceeds

Background

When Belmont issues bonds, they deposit proceeds or other monies in various accounts, which may include a construction fund, debt service fund, debt service reserve, and an escrow fund in a refunding. Monies allocated to these funds are invested until needed. The investment strategy for each fund will depend, in part, on federal or state statutes and regulations governing the types of instruments permitted to be used, the yield permitted for the fund, and the anticipated drawdown of bond proceeds. Additionally, each of these funds will have different investment objectives, so there are many factors to be considered by the issuer when selecting an investment instrument.

Policy

The City of Belmont studies the risks inherent in investing bond proceeds and incorporates steps in their investment strategy for each fund to minimize these risks. Three types of risk are credit risk, the risk of investing in instruments that may default; market risk, the risk of selling an investment prior to maturity or at less than book value; and opportunity risk, the risk of investing long term and having rates rise or investing short term and having rates fall. The City has considered actions to mitigate these risks.

These include establishing guidelines for permitted investments to reduce credit risk, developing good cash flow estimates to reduce market risk, and integrating knowledge of prevailing and expected future market conditions with cash flow requirements to reduce opportunity risk.

The City also developed specific policies and procedures for the investment of bond proceeds to ensure that legal and regulatory requirements are met, fair market value bids are received, and issuer objectives for various uses of proceeds are attained. The following actions are recommended:

1. Belmont has an investment policy that includes the investment of bond proceeds.
2. Belmont has procedures in place to ensure timely coordination of its debt management and investment activities.
3. The duties of the individual designated by the City to be responsible for the investment of bond proceeds (the "Investment Officer") should be specified and include:
   - working with the financial advisor, bond counsel, and underwriter to determine how bond proceeds will be invested given expectations for the drawdown of proceeds, federal tax law requirements, or other concerns;
   - ensuring that fees paid to brokers are reasonable;
   - monitoring investment and custody of bond proceeds;
   - understanding federal tax law, particularly as it pertains to arbitrage restrictions; and
   - maintaining adequate records to comply with arbitrage rebate requirements.
4. The City must verify that investment decisions conform with all legal, statutory, and regulatory requirements; requirements established by the trust indenture; and requirements that might be imposed by credit enhancement providers, including:
   - establishment of funds and procedures,

- designation of eligible investment instruments;
- purchase of investments at fair market price; and
- permitted yields, such as those to comply with federal arbitrage requirements.

5. The City requires that underwriters and financial advisors report to them on any finder's fees or fee-sharing arrangements. The City also carefully evaluates any conflicts of interest that may arise from having underwriters or financial advisors involved in the sale of bonds also charged with the investment of bond proceeds.
6. Underwriters of the bonds or the financial advisor may bid to invest the proceeds, but the City must verify they are getting a fair market price on the investments. Sufficient records are maintained to document that investments were purchased at a fair market price.
7. In an negotiated transaction, underwriters may offer to work for little or no management fee in exchange for the right to provide escrow securities. To ensure they are receiving a fair market price for investments, the City agrees to not accept a reduction in the management fee in exchange for allowing the underwriter to invest bond proceeds.
8. Care should be taken to make certain that the interests of the City are represented if outside professionals are used to solicit and evaluate bids.

References

- *"Making Arbitrage Rebate Calculations an Illustration,"* Government Finance Review, October 1991.
- *Guide to Arbitrage Requirements for Governmental Bond Issues and 1994 Supplement,* Terry Burke, GFOA, 1992 and 1994.
- *ABC's of Arbitrage: Tax Rules for Investment of Bond Proceeds by Municipalities,* Frederic L. Ballard, Jr., American Bar Association, 1994 Edition.

Adoption Date:
June 26, 2001

Policy Level:
2

City of Belmont Financial Policies

EMPLOYEE RETIREMENT AND BENEFITS ADMINISTRATION

E1 Encouraging Financial and Retirement Planning

Background

Belmont provides certain retirement plans to their employees, including defined benefit, deferred compensation and defined contribution plans. In addition, certain employees are provided health care benefits and/or Social Security coverage as well. The purpose of these programs is to assist in the recruitment and retention of employees, while also ensuring the financial security and independence of those who serve the public. Career-long financial and retirement planning can advance these goals and enable the participating employees to make the most informed decisions on how to utilize these resources.

Policy

The City of Belmont and their retirement plans provide suitable access to and encourage the use of retirement planning services for their employees. Employers and retirement plans have a responsibility to insure that participants understand the benefits provided. This responsibility is especially important when employees must make investment or other decisions regarding their retirement benefits. It is critical that the education be unbiased and free from investment product promotions. The cost of these services is borne by the City of Belmont, the retirement plan or the employee, depending on the plan design.

The program of employee financial and retirement planning services will include several elements. Specific examples of financial and retirement planning practices include:

1. Introduction to the importance of retirement savings in the early years of one's employment. This accomplished through on-site enrollment meetings, employee orientation programs, software packages, on-line financial planning calculators and other strategies.

2. Periodic financial education and retirement planning sessions, conducted throughout the employees' careers. Sessions for employees early in their careers may help them understand their saving and investment options, and any later buy-back or conversion privileges. At a minimum, pre-retirement planning sessions should be offered at least five years prior to projected retirement age. To encourage participation, sessions may be conducted at convenient sites during work hours.

3. Encouragement of supplemental tax sheltered annuities and deferred compensation programs. Education about these plans and their fees should be included in financial planning sessions.

4. Unbiased educational programs for employees who are given optional benefit plans using financial models with parameters controlled by the employer and the retirement plan. Employees will be given the opportunity to provide input for the selection of variables in these models, and they

should be free from investment product promotions.

5. Access to qualified financial planning services which:

   - offer comprehensive training,
   - provide a balanced view of the entire benefits package,
   - consider employees' requirements and options, and
   - prohibit investment product compensation from driving the presentations.

6. Employee instruction on how to confirm Social Security information (recommended on a regular basis every three years and at retirement).

7. Retirement planning sessions that include information on other issues employees face in retirement. Such topics might include: health care, long-term care insurance, relocation decisions, durable powers of attorney, living wills, tax issues, wills, etc.

The City will work proactively with the public-sector retirement community to develop and promote communications and financial planning tools in written form and through other media which can be used by employers, public employee retirement systems, and public employees.

References

- *Planning and Establishing Preretirement Education Programs,* David Amick, Ann Risdon, and Sheryl Wilson, GFOA, 1994.
- *A Public Employee's Guide to Retirement Planning*, Kathleen Jenks Harm, GFOA, 1995.
- "Public Employees are Educable Investors," *Pension and Benefits Update*, July/August 1998.

Adoption Date: June 26, 2001	Policy Level: 2

E2 Public Pension Design Considerations

Background

Belmont policymakers must view pension benefits within the broad context of service delivery and employment policy. The pension benefit is provided to assist employees in preparing for retirement, compensate individuals for their many years in public service, and assist Belmont in the recruitment and retention of employees. Broadly speaking, there are two types of pension plans, defined benefit and defined contribution.

Defined benefit plans, with very few exceptions, provide a pension benefit calculated using a formula based upon a plan participant's age, tenure, and salary. Generally, both employers and participants contribute to these public-sector defined benefit plans. All assets accumulated to fund the retirement benefits are invested by the retirement board or a central agency responsible for investing the retirement funds. All investment-related risk are borne by plan providers. These plans are predominant in the public sector, representing over 90 percent of the plans.

Advantages of defined benefit plans are generally considered to be:

1. *The plans are well-suited for employers that want to attract and retain employees for full careers, and want a tool to manage workforce levels.*
2. *The plans allow for definite retirement planning by having the plan providers bear the investment risk, and by providing easily determined lifetime benefits.*
3. *Optional cost-of-living adjustments may be provided to retirees.*

A defined contribution plan provides for benefits based solely on the assets available in an employee's individual account, to which both employees and the employee may contribute fixed amounts. All employees have their own accounts set up within the plan to which contributions and investment gains and losses are recorded. Typically, under a defined contribution plan, employees direct the investment of their contributions among investment options available, and therefore fully bear the investment risk. The dollar amount accumulated in a defined contribution plan will vary depending upon the amount contributed to the plan and the investment performance.

Advantages of defined contribution plans are generally considered to be:

1. *The benefits are very portable as employees move to other employers.*
2. *Employer liability obligations are fulfilled annually as contributions are made, so there is no unfunded liability.*
3. *Benefits are fairly easy for participants to understand because they are able to review their account balances on a regular basis.*

Policy

The City of Belmont pension plan design decisions will take into account service delivery and employment policies.

The City recommends that Public Employee Retirement Systems (PERS) and Belmont use care and caution when determining whether changes should be made to the pension plan design. The policy of the retirement system will be a factor when evaluating plan design changes, along with potential cost implications or potential savings to employers. The actual costs to the City and participants are determined by the number and amount of benefits actually paid to recipients, and the source and amount of plan contributions and net income.

It cannot be universally said that changing to either a defined benefit or defined contribution plan would cost less or decrease contributions over the long term. However, since plan design can affect the cost of the plan, it will be a consideration when considering plan design changes. Changes in cost can be shared jointly by plan participants and the City. In addition, whether or not employees are covered by Social Security or other benefit programs in addition to the pension plan are important considerations.

Assuming a potential plan design change is consistent with the retirement policy, the City and the pension system, the impact of any plan design change must include these factors:

- benefits for employees with different salaries, tenure, and career objectives,
- Belmont contributions,
- employee educational efforts,
- pre-retirement distributions,
- disability and survivor benefits,
- early retirement, and
- distribution of plan benefits

References

- *An Elected Official's Guide to Public Retirement Plans*, Cathie G. Eitelberg, GFOA, 1997.
- *Benefit Design in Public Employees Retirement Systems*, Thomas P. Bleakney and Jane D. Pacelli, GFOA, 1994.

Adoption Date:
June 26, 2001

Policy Level:
2

E3 Guidance for Defined Contribution Plans

Background

Belmont provides a defined contribution retirement plan for their employees, the voluntary deferred compensation arrangement is formed under Section 457 or Section 403 (b) of the Internal Revenue Code. These arrangements are in addition to, or in lieu of, a traditional defined benefit pension plan. Under most defined contribution plan arrangements, the participating employees typically self-direct investment of the funds credited to their individual accounts from a menu of investment options selected, or offered, by the plan their employers select.

Historically, the accounts of individual employees in deferred compensation plans were concentrated in fixed-income or stable value instruments. However, in the last decade, asset allocations of participating employees have shifted dramatically, and in many systems the resultant employee asset allocations now resemble those of traditional defined benefit pension systems, at least in the aggregate.

Policy

The City of Belmont is committed to maintain adequate investment education and asset allocation information be provided to participating employees in defined contribution plans that permit participants to self-direct their investments. To accomplish this objective, the following guidelines are followed:

1. Trustees of the plan should strive to provide for a complete**,** comprehensive and coherent spectrum of investment alternatives that include all the major asset classes**.** For very large plans, this may require the assistance of an independent consultant to assist in the plan design. For smaller plans, a bundled plan administration provider may provide a balanced and comprehensive array of investment options that have been designed by professionals on a multi-plan basis, in order to achieve economies of scale. In providing the investment options, the plan should include several passively managed investment options. Low-fee index funds can provide economical exposure to asset classes, and should be explained fully as potential building blocks in the asset allocation process.
2. The investment program may include asset allocation tools, including either or both of the following: (a) asset**-**allocation software, literature or consulting services, and/or (b) a family of differentially risk-appropriate asset-allocation funds that provide broadly diversified multi-asset funds-of-funds**.** Asset allocation information for participants provided through worksite investment seminars, educational brochures and worksheets, interactive asset-allocation software, and access to qualified investment or financial planning professionals. Participants should consider their asset allocation across all their portfolios, including non-retirement assets. In some cases, portfolio "rebalancing" record keeping systems or products can provide for periodic review of participants' desired asset allocations. These investment products may be called "model portfolio," "lifestyle" or "life cycle" funds. Access to personal financial planning services specific to these assets should also be offered as part of the investment program. If additional fund fees or expenses are required for these products, they will also be

disclosed.

3. Any program requires the participant to choose investments with differing patterns of risk and return should be informed that, in general, there is a trade-off between the probability of high returns and risk of loss.
4. Account statements must be sent to participants on a periodic basis, and they may report the asset allocations by asset class. Recordkeepers may provide participants at least annually, but preferably quarterly, with a summary of their investment portfolio by asset class that includes domestic equity, international, fixed income, cash, and if appropriate, other classes such as real estate. Where possible, these allocations should be presented in graphic form with benchmark comparisons included.
5. Participants may be reminded of their potential need to change their asset allocations as they age or experience various life events during the annual open enrollment process. Also, a reminder might be issued to participants as they cross certain age levels, as well as in conjunction with a change in employment status.
6. At least annually, the plan sponsor, the plan administrator or a third-party contractor may provide all participants with specific information emphasizing the importance of asset allocation and diversification. These periodic reminders should clearly explain the concept and then emphasize asset classes and their risks. They should avoid discussion of specific investment products. Newsletters, statement inserts, payroll stuffers and electronic media are viable vehicles for such information.

In order to avoid potential liabilities, the City of Belmont will refrain from making recommendations on specific investment options.

References

- *Planning and Establishing Preretirement Education Programs*, David Amick, Ann Risdon, and Sheryl Wilson, GFOA, 1994.
- *A Public Employee's Guide to Retirement Planning*, Kathleen Jenks Harm, GFOA, 1995.
- "Public Employees are Educable Investors," *Pension and Benefits Update*, July/August 1998.
- *An Elected Official's Guide to Defined Benefit and Defined Contribution Retirement Plans*, Nicholas Greifer, GFOA, 1999.

Adoption Date: June 26, 2001	Policy Level: **2**

E4 Funding of Employee Retirement Systems

Background

The objective of employee retirement systems is to establish and receive contributions which, expressed as a percentage of active member payroll, will remain approximately level from generation-to-generation based on the plan's existing benefit package. Embodied in this objective are the principles of accrual accounting, which require that the total cost of employee services be recognized in the period in which those services are rendered. The level contribution design of pension plan funding is intended to assign pension costs for the employee population to the appropriate fiscal periods.

Policy

The City of Belmont depends on certain pension plans to carry out their assigned duties of assuring that benefits promised are properly measured and reported in accordance with standards established by the Actuarial Standards Board (ASB) and the Governmental Accounting Standards Board (GASB), and that actuarially required contributions are collected by the pension plan. In pursuing these objectives, Belmont will, consider the following practices:

1. Have an actuarial valuation prepared on a periodic basis, by a qualified actuary, in accordance with the principles and procedures established by the ASB. The valuation should be prepared using funding methods and assumptions that are adopted following discussion with the actuary and should conform to the requirements of ASB and GASB.
2. Establish a period for amortization of unfunded actuarial accrued liabilities that conforms to the parameters established by GASB.
3. Assure that actuarially required contributions are collected by the pension plan on a timely basis. Reductions in or postponement of contributions violates one of the basic principles of level percent-of-payroll financing and constitutes a real threat to responsible funding.
4. Obtain and review all actuarial experience studies performed by the pension plan providers.
5. Review the plan's actuarial valuations that are performed by an independent actuary at least once every 10 years. The purpose of such a review is to provide an independent critique of the reasonableness of the actuarial methods and assumptions in use and the resulting actuarially computed contributions and liabilities.
6. Widely distribute the comprehensive annual financial reports (CAFR) related to pension plan activity and distribute summary information to all plan participants.

References

- *Financing Retirement System Benefits*, Richard G. Roeder, GFOA, 1987.
- *Public Pension Plan Operations and Administration*, Virginia S. Brizendine, GFOA, 1992.
- *Guidelines for the Preparation of a Public Employee Retirement System Comprehensive Annual Financial Report*, Stephen Gauthier, GFOA, 1996.

Adoption Date: June 26, 2001	Policy Level: **2**

E5 Employee Involvement in Health Plan Changes

Background

In response to changing technology, varying methods of service delivery, and evolving participant needs, a health plan sponsor (or administrator) must continually reevaluate the health plans offered by the City to determine what changes should be implemented. Potential changes include deductibles, covered services, maximum limits, prescription coverage, cost sharing, and any other feature of the plan.

A major challenge for the City as the health plan sponsor, is to maintain participant satisfaction with the plan while making these changes. "Participants" is defined here to include active employees and retirees. Participants often assume that changes to a plan decrease their services, when in some cases, changes can expand services covered by the plan or introduce more effective delivery methods. Thus, the City must work proactively to encourage and maintain participant satisfaction with the health plan. An effective method is to involve participants in the decision-making process.

Policy

The City of Belmont, as the health plan sponsor, may consider participants' opinions and preferences in order to develop and maintain the most effective health plan for all participants. The City shall determine the appropriate degree and method of participant involvement and consider the following:

1. By involving employees in health care plan decisions the City will establish and maintain credibility with the workforce, increase understanding of the plan, ensure plan changes occur smoothly, and spark discussions among participants regarding the plan. For participants, this involvement encourages a health plan that meets their needs and increases their satisfaction with the plan. Thus, effective involvement can reduce communication costs, decrease the number of questions directed to the City, and increase participants' satisfaction.
2. Participant involvement should be considered as part of the original adoption of a health care plan and when changes are made to an existing plan. While the City will make final decisions, participant involvement establishes the expectation that participants' opinions and preferences will be considered, respected, and considered when implementing a substantive change to the plan.
3. Participants' opinions and preferences can be expressed through focus groups, surveys, discussion sessions, review boards or committees, and/or ballot votes, and in some cases, discussions with appropriate external associations. The most appropriate method for obtaining information from participants depends on the available budget, time frame, importance of the issue, geographic dispersion of participants, management interest in involving participants, and workforce interest.
4. Participant involvement could be initiated by a short participant survey of interest or by inviting potentially affected or interested participants for a discussion on the topic. When surveying participants, it also is important to include both unionized and nonunionized participants.
5. If a committee of reviewers is chosen, guidelines should be considered

concerning the makeup of the reviewers, selection and term of reviewers, procedures for review of health care plan changes, as well as the specific jurisdiction of the reviewers (e.g., advisory to management). Other methods of participant involvement, as listed above, could be done in-house or with a consultant.

6. The City and the staff may also determine the type and scope of plan changes that would trigger a need for participant involvement. Examples of such plan changes include:
   - material increases or decreases in deductible;
   - material changes in coverage;
   - access to providers for any of the health plans offered, including doctors and hospitals;
   - revisions to the definition of covered participants;
   - approval process for prescription drugs;
   - modifications in health plan philosophy such as emphasizing managed care;
   - development of training or educational programs; and
   - a significant change in, or adoption of, an accepted quality measure.

References

- *Post-Retirement Medical Benefits*, Robert W. Kalman, GFOA, 1988.
- *Evaluation of Alternative Health Care Delivery Systems*, Cynthia K. Hosay, GFOA, 1988.
- *Child Care Benefits*, Glory Fox Dierker, GFOA, 1989.

Adoption Date:
June 26, 2001

Policy Level:
2

City of Belmont Financial Policies

RISK MANAGEMENT

R1 Risk Management Program Considerations

Background

Belmont maintains a Risk Management Program. Accordingly, a policy statement emphasizes the importance of the risk management program and commits Belmont to managing risks. If top-level support is expressed in a written document, it is easier to maintain that support when new officials take office. This support strengthens the authority of the person or committee assigned risk management responsibilities.

Policy

The following guidelines for making decisions about controlling and financing risks shall be considered.

Belmont's Risk Management Objectives are:

- To protect the City against the financial consequences of accidental losses of a catastrophic nature.
- To preserve the City's assets and service capabilities from loss, destruction or depletion.
- To minimize the long-term cost of City activities by the identification, prevention, and control of accidental losses and their consequences.
- To apply risk management techniques to minimize the adverse effects of losses and to serve as a cost reduction center.

Responsibilities for Risk Management Program is assigned to the Finance Director, who is chiefly responsible for risk management matters and has the authority to secure appropriate changes and settle claims as presented by resolution of the City Council.

In order to achieve its objectives, Risk Management assumes responsibility for, but is not limited to, the following functions:

- Planning, organizing, directing, and managing a comprehensive risk management program to protect the City against catastrophic losses.
- Formulating and implementing administrative policies and procedures necessary for carrying out City insurance activities.
- Developing programs to deal with risk through insurance, self-insurance, non-insurance, contractual risk transfer, reduction, prevention (safety), and protection.
- Developing, coordinating, and implementing uniform and consistent terminology for City contracts, leases, permits, and any associated agreements in order to minimize risk to the City.
- Developing, coordinating, and implementing safety programs and safety education.

References

- *Local Government Finance*, Concepts & Practices – Chapter 17, John E. Petersen with Dennis R. Strachota, GFOA, 1997.

Adoption Date: June 26, 2001	Policy Level: **2**

City of Belmont Financial Policies

PROCUREMENT MANAGEMENT

P1	Procurement Planning

Background

Procurement in the public sector is the process through which Belmont acquires goods and services for its own use. Procurement includes:

- *Planning and scheduling procurement activities to meet program and budgetary objectives;*

Procurement is Belmont's pipeline to the business community wherein it buys from the private sector those goods and services it elects not to make or provide through the efforts of it's own employees. Thus, the way Belmont performs the procurement functions has a substantial impact on the City's business enterprises. Indeed, procurement is commerce in action.

To achieve this objective, the procurement function seeks to foster as much competition as possible. In doing so, it adopts the goal of fairness by ensuring that all who wish to compete for the opportunity to sell to Belmont can do so. In some cases, Belmont may attempt to create competition by encouraging and assisting the development of new business.

Finally, the goal of integrity is woven throughout the procurement cycle, so as to maintain the public's trust and reduce Belmont's exposure to criticism and suit. This goal is achieved through the requirement for complying with al applicable legal provisions.

The essential elements of procurement planning requirements found in state and local laws are defined by the National Association of State Purchasing Officials and National Institute of Governmental Purchasing as follows:

- *Purchasing structure, policy, and authority;*
- *Planning & Scheduling*
- *Authority: persons taking procurement actions must have formal authorization to do so;*

Policy

Belmont's City Council and management understand the importance of, and support, the procurement function. Service delivery will be adversely affected if purchasing personnel cannot meet program needs effectively.

Planning is necessary in order to consolidate purchases and achieve economies of scale. Scheduling takes advantage of market cycles by anticipating the best time to buy. Departments that budget effectively estimate their need for commodities and services in advance. From these estimates, a purchasing schedule can be created that take into account and consolidates departmental needs.

Purchasing in local government has several responsibilities that are clearly supportive of its fundamental charge to achieve economy and value while maintaining openness and integrity. These responsibilities include:

- Assisting user departments to select the most appropriate purchasing methods, and to develop and write purchase specifications, statements of work, bid evaluation formulas, and proposal evaluation methodologies
- Advising management and user departments on such matters as market conditions, product improvements and new products, and opportunities for building (proper) goodwill in the business community

References

- *Local Government Finance*, Concepts & Practices – Chapter 17, John E. Petersen with Dennis R. Strachota, GFOA, 1997.
- *An Elected Official's Guide to Procurement,* GFOA 1997

Adoption Date:
June 26, 2001

Policy Level:
2

P2 Source Selection and Purchasing

Background

Procurement includes source selection or (purchasing), which is the process through which solicitations are issued, advertisements run, vendors selected, and goods and services received.

The fundamental objective of the purchasing is to provide operating departments with the goods and services they need in the right quality and quantity on a timely basis, as efficiently as possible, and at the lowest overall cost.

The essential elements of procurement planning requirements found in state and local laws are defined by the National Association of State Purchasing Officials and National Institute of Governmental Purchasing as follows:

- *Competitive processes;*
- *Specifications*
- *Provisions for restrictions on processes that limit competition;*
- *Bid evaluation and award;*
- *Materials management;*
- *Cooperative purchasing*
- *Environmental concerns.*

Competition includes methods of selecting a provider of goods or services should be as competitive as possible, and a competitive sealed bid or proposal should be used unless there are justifiable reasons for using another method;

Policy

The source selection (purchasing) process requires program and procurement staff to work closely to define what is to be bought. Neither can do it alone. Specifications and scopes of work reflecting the program's knowledge of its needs in delivering services and procurement's knowledge of the market are developed together. Belmont's policy further requires that program and procurement staff decide on the appropriate purchase method and type of contract, procurement staff issue solicitation and receive bids/offers. Procurement executes the contract and the goods/services are delivered in accordance with receiving procedures. This separation of duties is a fundamental aspect of government procurement.

Procurement responsibilities include:

- Compiling and maintaining lists of potential suppliers
- Participating in decisions whether to make or buy services-that is, whether to provide a service in-house or contract it out
- Securing quotes, bids, and proposals and working with the user departments to evaluate the offers received
- Maintaining continuity of supply through coordinated inventory

- Seeking to assure the quality of needed goods and services through standardization and inspection

References

- *Local Government Finance*, Concepts & Practices – Chapter 17, John E. Petersen with Dennis R. Strachota, GFOA, 1997.
- *An Elected Official's Guide to Procurement,* GFOA 1997

Adoption Date: June 26, 2001	Policy Level: **2**

P3	Contract Administration

Background

Contract administration stage of the procurement process is when the terms of the purchase agreement are enforced and the bills are paid.

This function has the goal of integrity, so as to maintain the public's trust and reduce Belmont's exposure to criticism and suit. This goal is achieved through the requirement for complying with all applicable legal provisions.

The essential elements of contract administration requirements found in state and local laws are defined by the National Association of State Purchasing Officials and National Institute of Governmental Purchasing as follows:

- *Quality Assurance;*
- *Safeguards;*
- *Professional development*
- *Clear written procedures available to the public; and*

Documentation includes: all steps in the procurement cycle should be recorded in writing; and

Compliance includes: both the government and the contractor are legally required to adhere to the written commitments they make.

Policy

It is Belmont's policy that lead responsibility for contract administration falls on program personnel with the advice and support of procurement staff. Bills are approved and submitted for payment, and the quality of commodities and services is monitored and evaluated. If the program wishes to change the specifications or scope or services, it consults with procurement staff who have the authority to issue and negotiate a change order. If the program is dissatisfied with its purchases, then procurement staff force corrective action by the vendor. When the contract is completed, the program staff "close out" the work by, for example, recovering equipment from the vendor, completing an evaluation of the purchase, making sure all bills are paid and the purchase file is complete, and forwarding suggestions for improvements to procurement staff.

Responsibilities include:

- Awarding contracts on behalf of the user departments
- Maintaining continuity of supply through coordinated planning and scheduling, term contracts and inventory
- Seeking to assure the quality of needed goods and services through contract administration

References

- *Local Government Finance*, Concepts & Practices – Chapter 17, John E. Petersen with Dennis R. Strachota, GFOA, 1997.
- *An Elected Official's Guide to Procurement,* GFOA 1997

Adoption Date: June 26, 2001	Policy Level: **2**

P4 Purchasing Control System Overview

Background

Public purchasing is that area of government that seeks to provide quality equipment, materials, supplies, and services at economical prices by seeking competition, evaluating proposals, and selecting suppliers based upon the needs and best interests of the government. The activity is public business, and record and information related to purchases are open to public inspection. While providing safeguards to competition and impartiality, the purchasing control system allows officials to use professional judgment and personal initiative to function effectively in the public interest. The Purchasing Control System is management-oriented, delegating activities which can be performed more logically, effectively, and efficiently by the operating departments. Written policies and procedures are provided for all delegated activities, and for the centralized control and monitoring of such activities.

Policy

Purchasing Authority

The Purchasing Ordinance established a Purchasing Officer, whose responsibility it is to manage and control all purchasing activities. The specific functions of the Purchasing Officer include the following powers and duties:

- To develop and prescribe, for the departments, such administrative policies, forms and files as may be reasonably necessary for the internal management and operation of these purchasing procedures;
- To authorize purchase orders for those items listed in Section 2-100 of the municipal code and required by departments in accordance with these purchasing procedures;
- To negotiate and recommend execution of contracts, when designated by the City Manager, for purchase of those items listed in Section 2-100 of the municipal code;
- To procure the needed quality in supplies, services, equipment and public works projects not controlled by the municipal code, at minimum expense;
- To ensure as full and open competition as possible on all purchases;
- To consolidate department orders for like items, ensuring quantity discount pricing whenever possible;
- To develop and maintain department awareness of purchasing and pricing principles, marketing conditions and new products;
- To inspect supplies and equipment as delivered, as well as contractual services performed, to determine their conformance with the specifications set forth in orders and contracts; and, in this connection, to have the authority to require chemical, physical or other tests of samples submitted with quotations or bids, or of delivery samplings, which may be necessary to determine quality and conformance with specifications;
- To establish procedures for, and assign duties to, personnel engaged in

receiving, storing and issuing purchased supplies, thereby ensuring that supply levels are consistent with usage requirements;

- To facilitate the transfer of surplus or unused supplies and equipment among departments as needed; and
- Subject to municipal code, to sell or exchange surplus supplies and equipment, provided that the same cannot reasonably be used by any department.

The Purchasing Ordinance assigns the purchasing responsibility to the Purchasing Officer or designee. Various responsibilities have been delegated to the operating departments. The departments are required to adhere to all pertinent statutory and central operational policies whenever purchase authority is delegated to them. The purchasing and payment procedures ensure that sufficient authority, independence and safeguards are provided to foster the objectives of the Purchasing Control System.

Purchasing Organization

A corollary to the delegation of Purchasing Officer, is a decentralized purchasing organization. Many people are involved in purchasing responsibilities, maintaining department independence and participation in the selection and purchasing process. Their dispersed activities are controlled and monitored through approval policies, prescribed purchasing procedures and assigned accountability. (Exhibit 1)

References

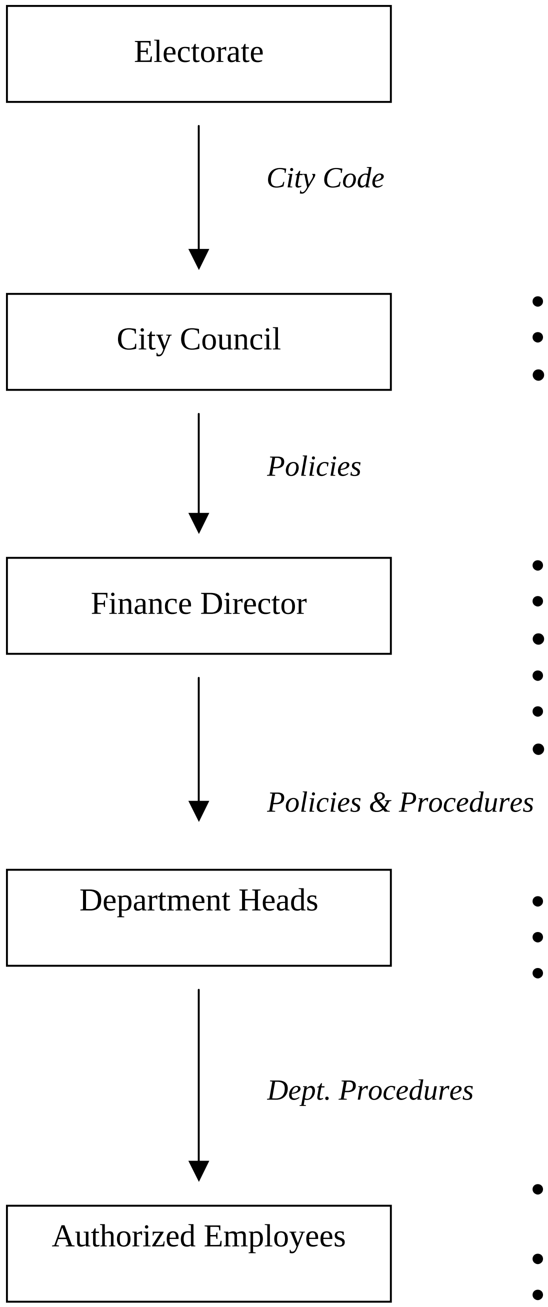
- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date:
June 24, 2003

Policy Level:
2

Exhibit I

Purchasing Control System Responsibilities



- Pass Purchasing Ordinance
- Pass Policy Resolutions
- Approve Specifications & Contracts in Specified Purchases

- Implement Purchasing Control Procedures
- Delegate Purchasing Authority
- Approve Major Purchases and Exceptions
- Monitor & Evaluate System Performance
- Set Payment Schedule
- Approve Purchase Orders

- Implement Department Operating Procedures
- Delegate Department Authorization Responsibility
- Approve Department Requisitions & Major Purchases

- Obtain Goods & Services, Competitively, via Prescribed Procedures
- Maintain Required Purchasing Records
- Manage Department Inventories

P5 Purchasing Guidelines

Background

In accordance with the policy framework set forth in Chapter 2 of the municipal code, City purchases and contracts (including rentals and leases) will be made pursuant to these guidelines. Applicable competitive bidding categories, authorization limits, or contract award procedures will be based on unit cost, total purchase cost for consolidated bid items, or fiscal year aggregates in the case of blanket purchase orders or similar ongoing purchasing arrangements. Staging of purchases in order to avoid these competitive bidding procedures or authorization limits is prohibited.

Policy

GENERAL PURCHASES

It is Belmont's policy that purchases and contracts for supplies, equipment, operating, maintenance, consultant services, and construction projects will be made pursuant to the following guidelines:

A. **Over-the-Counter**. Purchases of up to $5,000 may be authorized by the Department Head. Although no specific purchasing requirements are established for this level of purchase, competitive bidding should be used whenever practical.

B. **Open Market.** Purchase orders between $5,001 and $100,000 may be authorized by the Finance Director or designee (up to $50,000) and the City Manager (up to $100,000), pursuant to the open market bidding procedures established in Section 2-110 of the municipal code. Contracts between $5,001 and $100,000 may be authorized by the City Manager or designee. For construction projects, supplemental procedures will also be applicable in accordance with municipal code provisions.

C. **Formal bids or proposals.** Purchases in excess of $100,000 will be made pursuant to the formal bidding requirement established in Sections 2-120 – 2-129 of the municipal code. Authority to approve specifications, invite bids or request proposals, and award contracts will be as follows:
   1. For purchase orders with an approved budget and a cost estimate of $100,000 or less, the Finance Director or designee is authorized to invite bids or request proposals, approve specifications, and award the contract. For contracts with an approved budget and a cost estimate of $100,000 or less, the City Manager or designee is authorized to award the contract.
   2. For purchases in excess of $100,000, Council approval of the specifications and authorization to invite bids or request proposals is required. The City Council may authorize the Finance Director/City Manager or designee to award the purchase order/contract if the selected

bid or proposal is less than or equal to the Council-approved cost estimate and there are no substantive changes to the specifications. Otherwise, Council award of the contract is required.

CONSULTANT SERVICES

Contracts for consultant services will be awarded pursuant to the following guidelines.

A. Contracts for consultant services estimated up to $5,000 may be awarded by the Department Head. Although no specific purchasing requirements are established for this level of contract, proposals should be solicited whenever practical.

B. Contracts for consulting services estimated between $5,001 and $100,000 may be awarded by the City Manager or designee. Proposals from at least three firms should be solicited whenever practical.

C. Contracts for consultant services estimated to cost more than $100,000 will generally be awarded pursuant to the following guidelines; however, it is recognized that the City's need for consultant services will vary from situation to situation, and accordingly, flexibility will be provided in determining the appropriate evaluation and selection process to be used in each specific circumstance.

1. The Council should generally approve Request For Proposal (RFP) documents before they are issued. The Council may authorize the City Manager to award the contract if it is less than or equal to the Council-approved cost estimate and there are no substantive changes to the approved workscope. Otherwise, Council award of the contract is required.
2. In the event that the timely evaluation and selection of a consultant precludes Council approval of the RFP before it is issued, the RFP may be approved and distributed by the Finance Director or designee; however, award of the contract will be made by the Council.
3. Cost will not be the sole criteria in selecting the successful bidder. Consultant proposals will be evaluated based on a combination of factors that result in the best value to the City, including but not limited to:

    (a) Understanding of the work required by the City.
    (b) Quality and responsiveness of the proposal.
    (c) Demonstrated competence and professional qualifications necessary for satisfactory performance of the work required by the City.
    (d) Recent experience in successfully performing similar services.
    (e) Proposed methodology for completing the work.
    (f) References
    (g) Background and related experience of the specific individuals to be assigned to the project.
    (h) Proposed compensation

4. In the event that it is determined that it is in the best interest of the City for

services to be provided by a specific consultant – with contract terms, workscope, and compensation to be determined based on direct negotiations – contract award will be made by the Council.

Exhibit I overviews the purchasing guidelines.

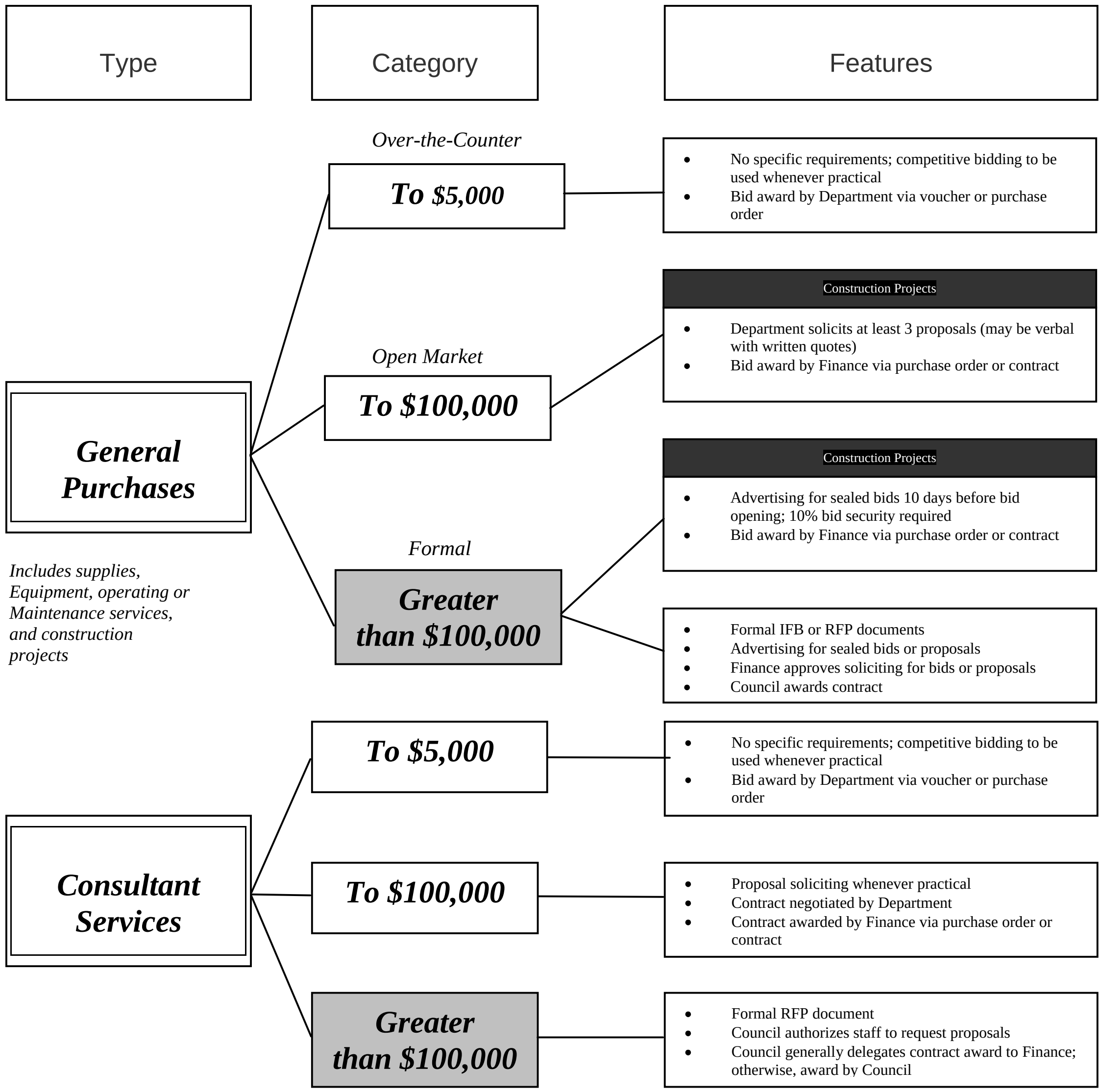
References

- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date:
June 24, 2003

Policy Level:
2

Exhibit I



Note: These are general guidelines; the evaluation and selection process for consultant services may vary on a case-by-case basis

Formal Bid or Proposal Process

P6 Elements and Waivers of Competitive Purchasing

Background

Although the value of open competitive bidding in major City purchases is widely recognized, all purchases should be made under conditions that foster competition among a sufficient number of potential vendors. All too often, expediency and convenience override the principle of competition where purchases are below the amounts specified, by policy, for sealed bidding. It is the responsibility of employees, who are assigned purchasing authority, to maintain an impartial environment for competition. Where competition cannot be obtained, the exceptions must be justified, documented, approved, and retained on file.

Policy

Essential Elements of Competition

The concept of competition presumes the existence of a marketplace in which there is more than one vendor supplying like commodities or services. Given this condition, competition can be defines as the process by which two or more vendors attempt ot secure the business of the city by the offer of the most favorable price, quality, and service. Competition exists not only in prices, but also in the technical competence of the vendors and in the quality of their products and services. In this sense, competition has multiple levels, and each aspect must be evaluated to determine which offer represents the best value.

In government, as well as in private industry, the fundamental purchasing objective is to obtain quality goods and services at minimum cost. Unlike private industry, however, public purchasing has the added responsibility of protecting the interests of taxpayers and must, therefore, continually function in an environment of public scrutiny. Policies and procedures which require openly competitive and impartial purchasing practices ensure the acquisition of sound value, guard against favoritism and profiteering at public expense, and safeguard equal opportunities to compete for government business.

Competition is ensured by the presence of the following elements in purchasing activities:

- Uniform, competitive procedures for purchases of all commodities and services.
- Complete explicit and non-restrictive written specifications for design and/or performance requirements.
- Legal notices of all purchases requiring sealed bids.
- Designated criteria for evaluating bids and proposals.
- Documented public records.

When all of these elements are present, the resulting process is a comfortable pattern familiar to purchasers and prospective vendors alike.

Competition at All Levels of Purchases

Although competition is ensured by the formal bid process required for major acquisitions, the need for competition at all levels cannot be overstressed. It should be the standard for all purchases. Individually, purchases with small dollar amounts are not material; in the aggregate, they represent a substantial portion of overall purchasing expenditures. For this reason, they should also follow competitive procedures.

Waivers of Competitive Purchasing

Although competition is required whenever practical, exceptions are permitted when competitive purchasing may not be feasible for specific commodities, services and circumstances. Employees assigned purchasing authority must use professional judgment and skill in determining when a waiver of competition is appropriate, ensuring that the waiver is consistent with prescribed policies and procedures, and documenting the exception in accordance with approved policies. The conditions and circumstances for waiving competition are reasonably constant, and are defined below:

1. Emergency Purchases – Emergencies of one kind or another are the most common situations for which requirements for competition can be waived. The officials who determine that an emergency exists are limited to those in positions of high responsibility. In all cases where purchases are made outside of normal procedures, records must be maintained to indicate the types and quantities of items purchased, the vendors from whom they were purchased, and the disposition of the items. Where possible, informal quotations should be obtained and recorded. If it is not possible to obtain quotations, that fact must be recorded, even on an after-the-fact basis if necessary. The complete record of emergency purchases must be submitted to the Finance Department for a procedural post audit within forty-eight hours of the end of the emergency situation.
2. Single-Source Purchases – A single-source supplier is the only acceptable vendor who is able to furnish a certain item or service. Single-source purchases are infrequent exceptions to competition, and care must be taken to avoid them because of their bias or preference for a particular product made by a particular company. In making a single-source determination, the responsible official must consider the following factors:

    - Is there a lack of responsible competition for a commodity or service which is vital to the operation and best interest of the City?
    - Does the vendor possess exclusive and/or predominant capabilities?
    - Is the product or service unique and easily established as one-of-a kind?
    - Can department or program requirements be modified so that competitive products or services may be used?
    - Are there patented or proprietary rights that fully demonstrate a superior patented feature not obtainable from similar products, or a product available from only one source rather than dealers and retailers from which competition could be encouraged?

    When a single-source purchase is justified and inevitable, the reasons and action taken must be supported by written documentation. The written justification must be approved by the Department Head and submitted, with the requisition or proposed contract, in lieu of a written tabulation/evaluation of bids or quotations.

References
• *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date: June 24, 2003	Policy Level: **2**

P7	Over-the-Counter Purchases

Background

The vast majority of purchases made on behalf of the City are up to $5,000. This procedure has been developed to bring control and accountability to this significant category of purchases. It is based upon purchases made on credit with local vendors, although several methods are available.

The same policies and procedures should be used for contracting for operation and maintenance services.

Policy

Competition, Specifications and Quotations

Although competition is ensured by the formal bid process required for major acquisitions, it should also be the standard for smaller purchases. When practical, verbal or telephonic quotations should be solicited from prospective vendors and quotations should be tabulated as they are obtained. The solicitation of competitive quotations is practical when the savings to be realized exceed the cost of obtaining the quotations. For example, at the low end of this purchasing category, it would not be practical to utilize an employee's time to obtain quotations on a screwdriver. However, at the high end of the range, it would be practical to obtain quotations for a video tape recorder. Although a purchase price up to $5,000 removes the requirement for written quotations, the resources used to obtain verbal or telephonic quotations would probably yield substantial savings. The use of competitive quotations, when reasonably practical, ensures the acquisitions of sound value, guards against favoritism, and safeguards equal opportunities to compete for City business.

If quotations are solicited, specifications must be developed for the design and performance requirements of the item(s) to be purchased. For competitive quotations to be useful, they must be submitted for identical specification. This standard applies equally to verbal quotations, written quotations, formal bids and formal proposals. The amount of detail included in the specifications is determined by the complexity of the item(s) to be acquired. Section 2-127 of the municipal code provides guidelines for the selection of the lowest responsible bidder.

Authorization and Review

The department purchasing authority is responsible for the maintenance of competitive purchasing and ethical conduct in the smaller supply and equipment acquisitions included in these procedures. In most cases, purchasing authority will be delegated by the Department Head to a member of his/her staff. The purchasing authority must ensure that competitive quotations are obtained whenever practical, and that prospective suppliers are evaluated in an equitable manner. In addition, the purchasing authority should review all receipts, invoices and payment vouchers to ensure that only authorized item(s) and quantities are purchased in the name of the City. Obviously, the quantities listed on invoices should coincide with the quantities indicated on corresponding receipts, and all receipts must be signed by the employees receiving the items being purchased.

Process Summary

Department Purchasing Authority
1. Identify equipment/supply need
2. Develop specifications
3. Solicit verbal/telephonic quotations
4. Evaluate quotations
5. Authorize department employee to make purchase (or submit requisition if purchase order is required).

Authorized Department Employee
6. Inspect item(s) to be purchased.
7. Sign for receipt of item(s) and present city employee identification
8. Obtain itemized receipt.
9. Submit receipt to Department Purchasing Authority

Vendor/Supplier
10. Provide ordered item(s) to authorized city personnel
11. Submit invoice to Department Purchasing Authority

Department Purchasing Authority
12. Review vendor invoices for department purchases.
13. Distribute expenditures among department expense accounts.
14. Prepare payment voucher.
15. Submit approved payment voucher and vendor invoices to Finance Department.

Finance Department
16. Process payment through Accounts Payable system

References

- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date: June 24, 2003	Policy Level: **2**

P8 Open Market Purchases

Background

Open Market purchases represent the mid-range of equipment and supply purchases, consisting of expenditures between $5,001 and $100,000. Although these purchases do not require a formal bid procedure, they do demand written documentation of a competitive evaluation and selection process. This procedure contains instructions for the solicitation, evaluation and reporting of the written quotations required in these purchases. The same policies and procedures should be used in contracting for operation and maintenance services.

Policy

Specifications
The first step, after the identification of a supply/equipment need and the determination that the purchase amount will require written quotations, is to develop specifications for the item(s) to be purchased. The amount of detail included in the specification is determined by the complexity of item(s).

Solicitation and Submission of Quotations
Written quotations for open market purchases may be solicited by either verbal or written request. As with the development of specifications, the complexity of the item(s) to be purchased will determine the best approach. Quotations may be received directly by the operating department and must be retained for a period of ninety days following receipt. Whenever possible, selection must be made based upon at least three quotations.

Selection of Lowest Responsible Bidder
A detailed discussion of the evaluation of quotations, bids and proposals is contained in Section 2-127 of the municipal code. All quotations received must be tabulated, by the department purchasing authority. Selection of other than the lowest bidder, rejection of any or all quotations, and any exceptions to competition must be justified and documented in a memo approved by the Department Head. Although the written quotations are physically retained by the operating department, the quotation evaluation and the approved exceptions memo must accompany the requisition submitted to the Finance Department. No purchase order will be issued without these supporting documents.

Process Summary

Department Purchasing Authority
1. Identify equipment/supply need
2. Develop specifications
3. Solicit at least three written quotations.
4. Complete requisition.
5. Prepare memo justifying any exceptions to competition or selection of other than

lowest bidder, approved by Department Head.

6. Submit requisition and approved exceptions memo (if necessary) to Finance Director.
7. Retain written quotations for a minimum of ninety days after receipt.

Finance Director

8. Approve Requisition and issue Purchase Order to the vendor.
9. Encumber projected expenses.
10. Submit Receiving Report to operating department.

Vendor

11. Provide ordered supplies/equipment.
12. Submit invoice to operating department.

Operating Department

13. Inspect shipments for conformance to specifications.
14. Request payment to vendor by submission of Receiving Report and vendor's invoice to the Finance Department.

Finance Department

15. Process payment through Accounts Payable system.

References

- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date: June 24, 2003	Policy Level: **2**

P9 Formal Contract Purchases

Background

The substantial expenditures associated with large equipment and supply purchases necessitates special safeguards for the integrity of the purchasing process. These safeguards include written procurement procedures, complete records on each purchase, and public access to those records. Purchasing records must document each step of the process – the establishment and approval of specifications, who was solicited, who responded, what the responses were, who received the award, and what the contract terms were. The records should also show the basis for any deviation from the normal process, such as making any emergency purchase or making an award to other than the lowest bidder.

This procedure contains instructions for implementing the formal bid procedure and ensuring the above safeguards. Some additional steps and safeguards are included for large purchases in excess of $100,000. These purchases require City Council approval of specifications and cost estimates prior to solicitation of bids, as well as Council approval (or its delegation) to award the contracts. The same policies and procedures should be used in contracting for operation and maintenance services.

Policy

<u>Bids or Proposals?</u>

The first step, after the identification of a supply/equipment need and the conclusion that the purchase amount will require a formal contract procedure, is to determine whether to solicit formal competitive bids or proposals from prospective vendors. A decision must be made as to which approach will best satisfy the needs of the City.

The vast majority of equipment and supply purchases can be made by soliciting sealed competitive bids. Detailed design and performance specifications can be developed for most products, allowing qualified suppliers to compete on an equal basis. Formal sealed bids, opened in public at a specified date and time, reduce subjective judgment in the award process and ensure the integrity of the procedures for expending public funds.

While this process is, and should be, the standard for City purchasing, there are situations in which the solicitation of formal proposals and competitive negotiation are more effective. For some purchases, the product knowledge or technical expertise of City personnel may not be sufficient to produce detailed specification for the best solution to the City's need. In these exceptional cases, it is more advantageous to request proposals for solution to the particular need, leaving the specifications of the solutions up to the prospective vendors. Examples of this type of purchase include telephone systems, computer systems, office automation, and other high-technology items. The variety of hardware, software and possible configurations, coupled with constant new developments in technology, make it exceedingly difficult to compile detailed specifications for bids.

Most of the principles that apply to proposals and negotiation are the same as those that pertain to formal sealed bids. For example, a list of qualified suppliers should be prepared, public notice of the intended purchase must be made, qualified suppliers should be solicited, and proposals are opened and read at a specified location, date and time. Some of the procedures, however, differ in detail from the sealed bid process, as explained below:

(1) A Request For Proposal (RFP) is used in lieu of an Invitation to Bid
(2) An informal Request For Information, soliciting general product and service data from prospective vendors, may precede the RFP. It is used to gather current information for use in the development of specifications. The Request for Information may be sent to suppliers, and replies received, directly by the operating departments. It does not require advertisement or sealed responses. The Request For Information must include a statement that no bids or proposals are being solicited; rather information is being gathered for a possible future purchase.
(3) Since these purchases usually involve nonstandard or complex products, additional information is frequently needed, such as service and support capabilities, customer references, and supplier's experience in the field.
(4) Price is not normally the major or determining criterion for award. Consequently, the subjective factors listed above are used in the development of the proposal evaluation criteria, which must be included in the RFP along with the stated relative order of their importance. If any quantified analysis or weighted formula are to be used, they must be thoroughly explained in the RFP.
(5) Inquiries requiring interpretation of the RFP or release of new information regarding the purchase, should be submitted in writing, answered in writing, distributed to all interested parties, and retained in City files pertaining to the purchase.

Whether a purchase will be made by soliciting formal sealed bids or formal proposals, some specifications must be developed for use by prospective suppliers. Specifications for bids emphasize design and performance requirements. Those for RFP's emphasize the City's need, include any known design and performance requirements, and explain how proposals will be evaluated.

Approvals and Authorizations

Because of the expenditures involved in large supply and equipment purchases, controls and approvals are required at various stages of the transactions. Before any bids/proposal can be solicited, the purchase cost estimate and specification must be approved by the Finance Director. If the unit cost or fiscal year contract aggregate of the purchase is estimated to be greater than $100,000, then the cost estimate and specifications must be approved by City Council.

When the successful vendor is selected, the written order or formal contract must be approved or signed by the City Manager. If the purchase is greater than $100,000, the contract must be approved by the City Council. The Council may, at the time of cost estimate and specification approval, find that a purchase is not of sensitive or exceptional community interest, and authorize the City Manager to award the contract. This authorization is granted on the conditions that the selected bid/proposal is less than or equal to the approved cost estimate, and there are no substantive specification changes.

Public Notice

Any purchase of supplies or equipment which requires a formal contract procedure, also requires 'advertisement' prior to the date set for the opening of bids. This requirement ensures the openness with which City purchasing must function, keeps the public apprised of purchasing activity, promotes participation of prospective suppliers, and invites further inquiry if additional details are desired. All legal notices are published in Belmont's local newspaper upon the request of the City Clerk.

Notices inviting bids or proposals shall be published at least once in the newspaper, with the first publication occurring at least ten days before the date of opening the bids. Notices shall include, but not be limited to, the following information:

(1) A general description of the item(s) to be purchased;
(2) The location where bid forms and specifications may be obtained;
(3) The location and deadline for submission of bids/proposals;
(4) The time and place assigned for the opening of sealed bids/proposals.

The public notice briefly describes the intended purchases and bidding procedures. Detailed instructions must be included with the specifications, which are made available to interested prospective suppliers.

Bidders List

Presently, no master bidders lists are being maintained for City equipment and supply vendors. Therefore, a list of qualified suppliers must be compiled, by the operating department, for the solicitation of bids/proposals. The list is submitted with the specifications and the Invitation To Bid (or RFP), and is used as a mailing list for solicitation.

The bidders list should contain the name, address and contact person for suppliers who are qualified and willing to furnish items and services needed by the City. The length of the list must ensure that enough qualified suppliers are solicited to assure adequate competition.

Receipt, Opening and Tabulation of Bids/Proposals

Instructions to bidders must include the requirement that formal bids/proposals be sealed, identified as bids/proposals on the envelopes, and submitted to the City Clerk. They must be opened in public, at the time and place stated in the public notice. A tabulation of all bids received shall be made available to public inspection, by the City Clerk, until the award of a contract. All bids/proposals shall be retained on file for a period of not less than two years.

Selection of Lowest Responsible Bidder

A detailed discussion of the evaluation of bids and proposals is contained in Section 2-127 of the municipal code. The selection of successful bidder, and a description of the evaluation process used, must be documented in a memo signed by the Department

Head. Selection of other than the lowest bidder, rejection of any or all bids, and any exceptions to competition must be justified in the memo.

Process Summary

Department Head
1. Identify equipment/supply need.
2. Develop cost estimate, bidders list, specifications, Invitation to Bid or RFP, and Staff Report (if necessary).
3. Submit package to Finance Department.

Purchasing Officer

4. Review bid/proposal package for adherence to purchasing control procedures.
5. Prepare request for City Council approval of cost estimate, specifications and authorization to advertise, if cost estimate is greater than $100,000.
6. Submit package to City Council.

City Council

7. Approve department need, purchase cost estimate and specifications.
8. Authorize staff to solicit bids/proposals.
9. Forward package to City Clerk.

City Clerk

10. Advertise public notice of Invitation to Bid/Request For Proposals.
11. Received sealed bids/proposals.
12. Conduct public opening of bids/proposals.
13. Maintain tabulation of received bids/proposals for public inspection.
14. Retain original bid/proposal files.
15. Forward bids/proposals to Department Head for evaluation and selection.

Department Head

16. Conduct evaluation of bids/proposals and selection of successful supplier.
17. Prepare Staff Report (if necessary) documenting evaluation process and justifying selection of other than lowest bidder, rejection of any bids/proposals, and any exceptions to competition.
18. Prepare contract and/or requisition.
19. Submit Staff Report, contract/requisition, and any supporting documentation to Purchasing Officer.

Purchasing Officer

20. Review Staff Report and supporting documentation for conformance to purchasing control procedures.
21. Prepare request for City Manager approval of order/contract (if less than $100,000 or delegated by City Council).
22. Submit package to Finance Director.

Finance Director

23. Approve contract/order.

City Manager
24. Sign contract/order on behalf of City.
25. Submit package to City Clerk.

City Clerk
26. Send copies of contract/order to Finance Director and Department Head.
27. Retain selection package and contract in bid/proposal file.

Operating Department
28. Submit requisition to Finance Department.

Finance Department
29. Issue purchase order, if necessary.
30. Encumber contracted expenses.
31. Submit copies of purchase order to Vendor, operating department, and City Clerk.

Vendor
32. Provide contracted supplies/equipment.
33. Submit invoice to operating department.

Operating Department
34. Inspect shipments for conformance to specifications.
35. Request payment to vendor by submission of a voucher or receiving report, and vendor's invoice, to Finance Department.

Finance Department
36. Process payment through Accounts Payable system.

References

- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date:
June 24, 2003

Policy Level:
2

P10 Contracting for Professional Services

Background

During the course of City operations, it sometimes becomes necessary to obtain professional services to supplement the activities of City personnel. The need arises whenever workload conditions, staffing levels, or professional capabilities require additional support. In such cases, the supplemental services enganged must be supplied by those persons or firms competent in the type of work to be performed, and the acquisition must be consistent with applicable budget limitations.

This procedure divides professional services into two categories, each with its own acquisition process, as follows:

1. *<u>Professional services: up to $50,000</u>. This category is comprised of specialized professional services costing up to $50,000, such as attorneys, architects, engineers, and management and technical consultants.*
2. *<u>Professional services: over $100,000.</u> This category contains the same types of services as above, but because of the substantial expenditure involved, the City Council has prescribed a formal selection and contracting process.*

Policy

<u>Professional Services Costing up to $50,000</u>
The services in this category include all specialized professional services such as attorneys, architects, engineers, management consultants, and technical consultants, when the fee for such services costs up to $50,000.

The identification of need, and the selection of the person or firm to be used, are the responsibility of the Department Head whose personnel are utilizing the engaged services. The hiring of all professional services must be approved by the City Manager. The contract, agreement or purchase order must be approved by the City Attorney and signed by the City Manager and the Finance Director.

Although the selection of the firm or individual to perform the needed services is delegated to the operating department, the selection process must foster competition among qualified professionals. Competition exists not only in prices, but also in the technical competence of the professionals and the quality of their services. Each aspect must be evaluated to determine which professional's services represent the best value. Where competition cannot be obtained, or is not feasible for specific services or circumstances, the exception must be justified and documented by the Department Head.

Any exceptions to competition should be described to the Finance Director. After the contract/agreement receives approval from both the City Attorney and the Finance Director, the package is submitted to the City Manager, who signs the contract/agreement on behalf of the City. Copies are sent to the Department Head and the Contractor, and the original is retained in the Office of the City Clerk.

Process Summary

Department Head

1. Identify need for professional services
2. Select individual or firm to perform needed services.
3. Develop contract or agreement.
4. Submit contract/agreement to the City Attorney.

City Attorney

5. Review proposed contract/agreement.
6. Indicate approval on contract/agreement.
7. Forward package to City Clerk.

City Clerk

8. Forward package to Finance Director

Finance Director

9. Review contract, agreement or P.O.
10. Forward contract/agreement or P.O. to City Clerk.
11. Process encumbrance for contracted expenditures (if known).

City Clerk

12. Forward package to City Manager.

City Manager

13. Review department need for services, selection of qualified professional, and proposed contract/agreement.
14. Approve and sign contract/agreement.
15. Forward package to City Clerk.

City Clerk

16. Forward copy to vendor, operating department, and Finance Department.

Contractor

17. Perform contracted services.
18. Submit invoice to operating department

Operating Department

19. Verify that contracted services have been provided.
20. Request payment to Contractor by submission of voucher or receiving report, and contractor’s invoice, to Finance Department.

Finance Department

21. Process payment through Accounts Payable system.

Professional Services Costing More Than $100,000

The services in this category include all specialized professional services such as attorneys, architects, engineers, management consultants, and technical consultants, when the fee for such services is in excess of $100,000. Because of the substantial expenditure involved, the City Council has prescribed a formal selection and contracting process. All contracts shall be developed and approved in accordance with the following process unless otherwise specified by the City Council.

A. The Project Manager will prepare a Request For Proposal which, after Finance Director review and approval, will be sent to professionals capable of conducting the project.

B. Upon receipt of proposals from the professionals, the Project Manager will make an analysis and recommend to the Finance Director those firms and/or individuals that warrant further evaluation by interview.

C. A three-person committee, consisting of the City Manager, the Department Head responsible for the project, and the Finance Director or designee, will interview the selected professionals. The committee will consider, among other factors, the experience and capability of each firm and/or individual, but will <u>not</u> consider fees. Local professionals, who maintain fully staffed offices in the City, or vicinity, shall be given preference if quality, service and all other relevant factors are equal.

D. Upon completion of the interviews, the committee will rank the proposals, and the Project Manager will submit a report, with a recommended priority list of professionals, to the City Council. The City Council, at a regular meeting, will review the report and authorize staff to negotiate a formal contract with one of the professionals.

E. The Project Manager will negotiate with the first designated professional regarding time schedules, scope of work, fees, and all other matters relating to the preparation of a contract document. If agreement is reached, a formal contract will be drafted. If agreement is not reached, negotiations will be discontinued, and the Project Manager will negotiate with the next designated professional on the priority list. This process will be repeated until agreement is reached with a capable professional on the priority list.

F. The formal contract will be submitted to the City Council, for approval, before its award to the selected professionals.

<u>Process Summary</u>

<u>Project Manager/ Department Head</u>

1. Identify need for professional services
2. Prepare RFP and list of capable professionals.
3. Submit RFP to City Manager.

<u>Finance Director</u>

4. Approve RFP specifications.
5. Authorize City Clerk to solicit proposals from capable professionals

<u>City Clerk</u>

6. Solicit proposals from capable professionals.
7. Submit proposals to Project Manager/Department Head

Project Manager/Department Head

8. Perform initial evaluation of proposals.
9. Submit list of firms/individuals, recommended for interview, to the City Manager.

Finance Director

10. Authorize evaluation interviews with recommended professionals.

Evaluation Committee

11. Conduct interviews with selected professionals.
12. Develop priority ranking of professionals.

Project Manager/Department Head

13. Prepare Staff Report, recommending authorization to negotiate contract with professionals, in the order provided by the priority list.

City Council

14. Authorize negotiation of formal contracts.

Project Manager/Department Head

15. Develop formal contract with one of the professionals.
16. Prepare Staff Report, recommending approval of formal contract.

City Council

17. Approve, by resolution, formal contract with selected professional.

City Manager

18. Sign formal contract on behalf of the City.

City Clerk

19. Retain original contract document.
20. Submit copies of contract to Project Manager or Department Head, Finance Director, and Contractor.

Project Manager/Department Head

21. Submit requisition to Finance Department.

Finance Department

22. Process encumbrance for contracted expenditure (if known).
23. Issue purchase order if necessary.

Contractor

24. Perform contracted services.
25. Submit invoice to operating department.

Operating Department

26. Verify that contracted services have been provided.
27. Request payment to Contractor by submission of invoice, and voucher (if no funds previously encumbered), to Finance Department.

Finance Department
28. Process payment through Accounts Payable system.

References

- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date: June 24, 2003	Policy Level: **2**

P11 Public Construction Projects

Background

The municipal code defines public works projects as "the construction or improvement of public buildings, works, drains, sewers, utilities, parks, playgrounds, and streets (excluding projects for resurfacing, maintenance and repair of streets)".

The municipal code also requires that such projects be let by contract, to the lowest responsible bidders when the expenditures exceeds the amount specified in Section 22032 of the Government Code of the State of California. That amount is currently specified as $100,000. These projects require City Council approval of plans/specifications and cost estimate prior to the solicitation of bids, as well as Council approval (or its specific delegation) to award the contracts.

The substantial expenditures associated with large public works projects necessitate special safeguards for the integrity of the purchasing process. These safeguards include written procurement procedures, complete records on each purchase, and public access to these records. Purchasing records must document each step of the process – the establishment and approval of plans/specifications, who was solicited, who responded, what the responses were, who received the award, and what the contract terms were. The record should also show the basis for any deviation from the normal process, such as making an emergency purchase or making an award to other than the lowest bidder.

Policy

Competition, Specifications, and Quotations

Although competition is ensured by the formal bid process required for major projects, it should also be the standard for smaller projects. When practical, verbal or telephonic quotations should be solicited from prospective contractors. The solicitation of competitive quotations is practical when the savings to be realized exceed the cost of obtaining the quotations. The use of competitive quotations, when reasonably practical, ensures the acquisition of sound value, guards against favoritism, and safeguards equal opportunities to compete for City business.

The first step, after the identification of a project need and the determination of whether the cost amount will require written quotations, is to develop specifications for the project. If quotations are solicited, specifications must be developed for the project to be completed. The amount of detail included in the specifications is determined by the complexity of the work to be performed.

Quotations may be received directly by the operating department and must be retained for a period of ninety days following receipt. Whenever possible, selection must be made based upon at least three quotations.

Authorization and Review
The department purchasing authority is responsible for the maintenance of competitive purchasing and ethical conduct in public works projects included in this procedure. In most cases, purchasing authority will be delegated by the Department Head to a member of his/her staff. The purchasing authority must ensure that competitive quotations are obtained whenever practical, and that prospective contractors are evaluated in an equitable manner. Any written contract must be approved by the Finance Director, City Attorney and City Manager to be effective, and should provide space for their signatures.

Because of the expenditures involved in large projects, controls and approvals are required at various stages of the procurement process. Before any bids can be solicited, the project cost estimate and plans/specifications must be approved by the Finance Director. If the cost of the project is estimated to be greater than $100,000, then the cost estimate and plans/specifications must be approved by the City Council.

When the successful contractor is selected, the purchase order award must be approved by the Finance Director, up to $50,000, and a contract award by the City Manager, up to $100,000. If the project is greater than $100,000, the contract award must be approved by the City Council. The Council may, at the time of cost estimate and specification approval, find that a project is not of sensitive or exceptional community interest, and authorize the Finance Director to award the contract. This authorization is granted on the conditions that the selected bid is less than or equal to the approved cost estimate, and there are no substantive specification changes. (Any specification changes altering the basic design and function of a project, or changing the cost by more than 15% are considered substantive).

Selection of Lowest Responsible Quotation
A detailed discussion of the evaluation of quotations, bids and proposals is contained in the municipal code. All quotations received must be tabulated, by the department purchasing authority. Selection of a successful bidder other than the lowest bidder, rejection of any or all quotations, and any exceptions to competition must be justified and documented in a memo (or Staff Report) signed and approved by the Department Head. The memo shall be reviewed by the Finance Director, for conformance to the City’s purchasing control procedures, and forwarded to the City Manager or City Council for approval, depending on the threshold value. Although the written quotations are physically retained by the operating department, the evaluation and exceptions documentation must accompany the requisition and/or contract submitted to the Finance Department. No purchase order will be issued, or contract executed, without this supporting information. Any written contract must be approved by the Finance Director and City Attorney, and signed by the City Manager, to be effective.

Public Notice
Any public construction project that requires a formal contract procedure, also requires ‘advertisement’ prior to the date set for the opening of bids. This requirement ensures the openness with which City purchasing must function, keeps the public apprised of purchasing activity, promotes participation of prospective contractors, and invites further inquiry if additional details are desired. All legal notices are published in Belmont’s local

newspaper upon request of the City Clerk.

Notices inviting bids shall be published at least once in the newspaper, with the first publication occurring at least ten days before the date of opening the bids. Notices shall include, but not be limited to, the following information:

(1) A general description of the project to be completed;
(2) The location where bid forms and plans/specifications may be obtained;
(3) The location and deadline for submission of bids;
(4) The time and place assigned for the opening of sealed bids.

The public notice briefly describes the intended project and bidding procedures. Detailed instructions must be included with the specifications, which are made available to interested prospective contractors.

Plans and Specifications
For public construction projects, plans and specifications are made available to prospective contractors in the City Clerk's office.

Bidder's Security
All bids for public construction projects shall be accompanied by a certified check, a cashier's check, bidder's bond, or other security as prescribed by law and authorized by the Finance Director, made payable to the City of Belmont, for an amount equal to 10% of the amount of the bid, or another amount specified in the Invitation To Bid or specifications. If the successful bidder fails to enter into the contract within the time specified, the amount of the bidder's security shall be declared forfeited to the City.

Receipt, Opening and Tabulation of Bids
Instructions to bidders must include the requirement that formal bids be sealed, identified as bids on the envelopes, and submitted to the City Clerk. They must be opened in public, at the time and place stated in the public notice. A tabulation of all bids received shall be made available for public inspection, by the City Clerk, until the award of a contract. All bids shall be retained on file for a period of not less than two years.

Work Performed by City Employees
If, after rejecting bids, or if not bids are received, the City Council may determine that, based on an estimate approved by the Finance Director and City Manager, a project may be performed better or more economically by the City with its own employees. This work may be authorized with the adoption of a resolution by at least three affirmative votes. Emergency work, performed by City employees without advertisement for bids, may also be authorized by a resolution when necessary for the preservation of life, health or property. The resolution must contain a declaration of the facts constituting such urgency.

Progress Payments
For many public works projects, contractors receive periodic payments as the work is completed. These payments are requested by the operating department responsible for the project. Copies of pay estimates must be submitted to the Finance Department to

request payments. Upon Finance Director approval, the Finance Department will process payment through the Accounts/Payable system.

Unless contracted otherwise, progress payments shall not exceed 90% of the value of the work completed, nor shall the final payment exceed 90% of the contract price. The final 10% is withheld pending final inspection and acceptance of the completed work. Final payment is due (30) days after City Council approval of the Notice of Completion.

Process Summary

Department Head/Project Manager

1. Identify project need.
2. Develop cost estimate; plans and specifications; Invitation To Bid; Bidder's List; and Staff Report (if necessary).
3. Submit package to Finance Department.

Purchasing Officer

4. Review bid package for adherence to purchasing control procedures.
5. Prepare request for City Manager approval of cost estimate, specifications and authorization to advertise, if cost estimate is greater than $50,000.
6. Submit package to City Manager

City Manager/City Council

7. Approve department need, project cost estimate and specifications
8. Authorize staff to solicit bids. City Council approval required if in excess of $100,000.
9. Forward package to City Clerk.

City Clerk

10. Advertise public notice of Invitation To Bid.
11. Send Invitation To Bid to contractors on Bidder's List.

Department Head/Project Manager

12. Mail plans and specifications to plan houses after placement of advertisement by City Clerk.

City Clerk

13. Receive sealed bids.
14. Conduct public opening of bids.
15. Maintain tabulation of received bids for public inspection.
16. Retain original bid files.
17. Forward bids to Department Head for evaluation and selection.

Department Head/Project Manager

18. Conduct evaluation of bids and selection of lowest responsible bidder.
19. Prepare memo, or Staff Report (if necessary), documenting evaluation process and justifying selection of other than lowest bidder, rejection of any bids, and any exceptions to competition.

20. Submit selection memo (or Staff Report and Resolution), and any supporting documentation to Finance Department.

Purchasing Officer

21. Review selection memo (or Staff Report) and supporting documentation for conformance to purchasing control procedures.
22. Prepare request for City Manager award of contract (if less than $100,000 or delegated by City Council).
23. Submit package to City Manager.

City Manager/City Council

24. Award contract.
25. Submit package to City Clerk and Department Head/Project Manager.

Department Head/Project Manager

26. Prepare contract document.
27. Submit contract to selected contractor.
28. Retain selection package in bid file.

Contractor

29. Execute contract.
30. Return signed contract document, and required proofs of insurance and bonds, to Department Head/Project Manager.
31. Submit contract to City Clerk.

City Clerk

32. Receive signed contract and required proofs from contractor.
33. Submit contract to Finance Director, City Attorney, and City Manager

Finance Director/City Attorney

34. Review and approve contract as to funding and form.

City Manager

35. Execute contract on behalf of the City.
36. Return contract to City Clerk.

City Clerk

37. Submit copies of fully executed contract to Contractor, Department Head and Finance Department.
38. Retain original contract document, bonds and insurance proofs in bid file.

Department Head/Project Manager

39. Submit requisition to Finance Department.

Finance Department

40. Encumber contracted expenses.
41. Issue P.O., if necessary.

Contractor

42. Complete contracted project.
43. Submit invoice to Department Head/Project Manager.

Department Head/Project Manager

44. Inspect completed project work for conformance to plans and specifications.
45. Request payment to Contractor by submission of invoice and copy of requisition (or receiving report if P.O. was issued), or Pay Estimate, to Finance Department.

Finance Department

46. Process payment through Accounts/Payable system.

References

- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date: June 24, 2003	Policy Level: **2**

P12 Emergency Purchases

Background

Extraordinary circumstances, such as natural disasters, at times require the emergency procurement of needed goods and services. The nature of the emergency may require a waiver of competitive purchasing procedures. The Municipal Code authorizes the Purchasing Officer or designee to dispense with bid procedures "when reasonably necessary for the preservation or protection of public peace, health, safety or welfare of persons or property." This procedure provides guidelines for the approval and documentation of any emergency waivers of competitive purchasing.

Policy

The determination that an emergency exists must be made by the City Manager or designee. If neither of those officials is accessible, the highest ranking official at the scene of the emergency may make the determination. The official making the determination that emergency purchases are authorized should coordinate and authorize the transactions as they are made. If the emergency occurs during normal business hours, the Purchasing Officer can coordinate purchasing activities. Coordination must be assigned to a single official in order to avoid duplication between departments during hectic incidents.

Emergency Purchase Approvals
Once emergency procurement is authorized by one of the officials described above, the approval of specific purchases follows the purchasing limits set by Council resolution; however, the maximum threshold requiring prior City Council approval is waived and may be executed by the City Manager.

Purchasing Process Exceptions
When possible, normal purchasing procedures should be utilized. Any deviations to established procedures must be documented and approved by the appropriate officials described above. Some of the processing exceptions that may occur are:

- Purchase orders, if required, will be issued upon request of the appropriate authorizing employee. They will be marked "EMERGENCY", and requisitions must be submitted following conclusion of the incident.
- Competitive purchasing should be utilized, if possible. Informal, verbal quotations should be solicited and tabulated.
- All documents relating to emergency purchases, e.g. requisitions, receipts, written authorizations and quotation tabulations are to be submitted to the Finance Director within two working days following conclusion of the incident. A memo summarizing the emergency incident and related purchasing exceptions must accompany the documents, approved by the Department Head responsible for the incident.

References

- *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date: June 24, 2003	Policy Level: **2**

P13 Purchasing With A Purchase Card

Background

For many of the over-the-counter purchases conducted on behalf of the City, the use of a purchase card can be a cost effective method of buying. It eliminates the writing of numerous requisitions, payment vouchers and warrants, thereby saving an appreciable amount of time, supplies and money. In addition, some vendors will not extend credit. In these instances, the use of a purchase card permits timely acquisition of needed items. This procedure provides guidelines for the acquisition, use and accounting of a purchase card.

Policy

The purpose of this policy is to provide instructions on the proper use of the City of Belmont procurement card for purchases of supplies, materials and equipment not to exceed limits established by your department's Approving Official. The maximum limits (established for Department Heads) are as follows:

MAXIMUM OF $1,000 PER TRANSACTION
MAXIMUM OF $5,000 PER 30 DAY PERIOD PER CARD
EACH CARDHOLDER WILL HAVE A SPECIFIC SINGLE PURCHASE LIMIT AND A 30-DAY MAXIMUM LIMIT

GENERAL INFORMATION

1. The **VISA** procurement card will have your name and City of Belmont seal embossed on the card. Authorization to use this card is restricted to you individually. It may not be delegated. No member of your staff, your family, your supervisor or anyone else may use this card. It has been specially designed to avoid confusion with your personal credit cards. The card is to be used for **OFFICIAL CITY BUSINESS** and **MAY NOT BE USED FOR PERSONAL PURCHASES.** The bank has no individual cardholder information other than the cardholder's work address. No credit records, social security numbers, etc are maintained.

2. Prior to receiving a procurement card, you will receive a copy of the Cardholder Agreement which indicates the maximum dollar amount for each single purchase and a total for all purchases made with the procurement card within a given month. The City's maximum limit is $1,000 per transaction, and $5,000 per month. However, your Department Head may establish lower limits.

PROCUREMENT CARD AUTHORIZATION

Additional authorization controls have been added to protect the City. When a merchant seeks authorization for a purchase from the bank, the system will check each individual cardholder's single purchase limit, the cardholder's 30-day limit, the Approving Official's limit, and the type of merchant where the cardholder is making a purchase before the transaction is authorized. All this is done at the time the card is scanned.

Single Purchase Limit: Each single purchase is limited and must comply with the Belmont Municipal Code Purchasing Ordinance (purchases in excess of $200 require three quotes/bids).

Cardholder's 30-Day Limit: Each cardholder has been given a maximum limit per month. This amount has been determined by your Department Head. Your 30-Day limit is located at the bottom of the form included with your procurement card.

Approving Official's Limit: Each cardholder has an Approving Official (in most cases it is your Department Head). The Approving Official's office limit is based on the monthly limits established for each card under their control. For instance an Approving Official with 5 employees each having a $1,000 30-day limit would have and office limit of $5,000.

Type of Merchant: Your Department Head has determined which type of merchants you are authorized to use with the card. See the following section regarding restricted uses.

The procurement card is a supplement to the procurement process. As with other procurement methods the following conditions must be met when using the procurement card:

(a) The procurement card should be used whenever possible in lieu of petty cash, emergency purchase orders, manual checks or purchase requisitions when the dollar amount for a single item or group of items is under $200.
(b) Each single purchase may be comprised of multiple items, but the total including tax cannot exceed the single purchase dollar limit on your procurement card.
(c) If a purchase will exceed the limit established by your Approving Official or the City, normal-purchasing procedures must be followed.
(d) The least expensive item that meets your basic needs should be sought. The Belmont purchasing ordinance requires three quotes to be obtained for items over $200.00.
(e) Cardholders must ensure that sufficient funds are available in the budget prior to making any purchases. Your Approving Official can assist you in verifying available funds.

3. The issuance of a procurement card in your name does not allow the procurement card company to do any credit check on your personal credit. They will not request any personal information from you, nor should any personal information be furnished.

4. Use of the procurement card is not intended to replace effective procurement planning which enables volume discounts.

5. Purchases must not be split to circumvent procurement regulations.

6. If a purchase made with your procurement card is questioned; you must be able to explain the nature of the purchase. If you cannot substantiate that the purchase was necessary and for official use, your department will address this situation in accordance with City policy.

7. Questions regarding your account should be directed to the procurement card Company at 1-800-227-6736.

CARD RESTRICTIONS

The procurement card can be used like any other credit card, to purchase supplies, materials, and equipment which are authorized and that do not exceed the single transaction limit or are restricted. The procurement card shall **not** be used for the following:

1. Cash advances
2. Personal services
3. Entertainment
4. Purchases of items carried in inventory unless out of stock
5. Alcoholic beverages
6. Medical drugs, narcotic drugs
7. Splitting of purchase to circumvent the single transaction limitation
8. Services which exceed $5,000 in any one year must be authorized by City Council

Your Department Head or Approving Official may apply other restrictions.

PURCHASING PROCEDURES

You will be notified by your Approving Official when your procurement card has been received. Use of the procurement card is voluntary and a privilege. Accordingly, you will be required to sign the cardholder agreement prior to receiving your card.

You may use the procurement card at any merchant, which accepts VISA cards for payment of purchases.

Upon selecting your purchases, present them and your card to the merchant. The merchant will complete a sales draft, which includes the following information:

- Imprint of your card; including card number, expiration date, and your name.
- Date and amount of purchase.
- Brief description of item(s) being purchased. (**NOTE:** You should have the merchant put something other than “miscellaneous” for description)
- Imprint of merchant name and identification.

The merchant will obtain authorization for the transaction via either a telephone call or direct telecommunication link to the VISA authorization network. The merchant will obtain an authorization number as long as the purchase is within the limits established for your card.

Before you sign the sales draft, verify that the amount is correct and that sales tax has been added. You will receive one copy of the signed sales draft. **RETAIN THIS COPY** in order to attach to your monthly statement of account.

TELEPHONE OR MAIL ORDER PROCEDURES

If you are authorized by your Approving Official to make telephone orders or internet orders with your procurement card, you must have documentation for all orders. If no external documentation is available you must maintain a log of telephone and internet orders for the same length of time as the billing cycle for your procurement card. When you receive your statement, which includes these orders, attach the log to the statement in lieu of a packing slip/receipt, if no receipt is sent confirming the order.

If you place an order through the mail, maintain a copy of your order form. Attach the order form and sales receipt, if available, to the statement in which the charge appears.

When placing a telephone, internet or mail order, you will be asked to provide your name, card number, the expiration date on the card, and an address.

STATEMENT PROCESSING PROCEDURES AFTER PURCHASE

At the close of each billing cycle, each employee who made purchases will receive a Statement of Account from USBank. The statement will itemize each transaction, which was charged to your procurement card account.

Upon receipt of the statement, complete each of the steps below **within 5 days**:

- Review the statement for accuracy.
- Provide a complete description and indicate the appropriate general ledger account code by each transaction.
- Document all charges on a Voucher Form or the Expense Summary Template. Print your Expense Summary.
- Attach all sales receipts or copies of telephone logs for mail/internet/telephone orders to the statement and voucher/expense summary.
- Sign the statement and forward to your Approving Official within five (5) days of receipt.

If you have returned an item purchased, attach the credit voucher to the statement on which the credit appears.

If you are charged for an item incorrectly, provide a complete explanation of the error on the form, “Cardholder Statement of Questioned Item.” Send this form directly to US Bank and forward a copy to your Approving Official. Your Approving Official will forward the copy to the Finance Department; they will follow-up with USBank regarding any adjustments necessary. Any item that is on your statement that you question must be submitted to your Approving Official within five (5) days from receipt of the statement.

If you will be unavailable to review your Statement of Account within the five (5) day period, please forward all paperwork including receipt to your Approving Official to process in your absence. The Approving Official will be responsible for processing statements for those on vacation. Upon your return, you will still be required to sign the original Statement of Account.

If a cardholder had no purchase activity during a particular billing cycle, no statement will be generated.

At the same time, USBank will forward a composite/summary statement to each Approving Official listing the totals for all the individuals with card activity during the last billing cycle. The Approving Official will review the summary, agree to all individual statement packets and reconcile all the charges to the summary statement. The Approving Official will sign the summary statement, attach all cardholder back up, obtain Department Head Approval and **forward the packet to Finance for payment within twenty (20) days of the statement date.**

DISPUTES

If items purchased with the procurement card are found defective, the cardholder has the responsibility to return the item(s) to the merchant for replacement or to receive a credit on the purchase. If the merchant refuses to replace or correct the faulty items, then the purchase of this item will be considered to be in dispute and will not be paid until resolved.

A disputed item must be noted on the cardholder's Statement of Account so it will not be paid until the problem is resolved. To process a dispute, notify USBank in writing, using the "Cardholder Statement of Questioned Item" form (attached) within 60 days after the date of the first statement on which the disputed charged occurred. Be sure to provide a copy to the Finance Department. USBank will research the disputed charge and make any necessary adjustments.

LOST OR STOLEN CARDS

Immediately notify your Approving Official and USBank. You may reach USBank Customer Service at:

1-800-227-6736

Provide the following information to your Approving Official: Your complete name; card number; the date reported to police, if stolen; date USBank was notified; and any purchase(s) made on the day the card was lost or stolen. A new card will be mailed to you after you have reported the loss or theft to USBank. A new account number will be assigned to your new card.

IT IS IMPORTANT THAT YOU NOTIFY USBANK AND YOUR APPROVING OFFICIAL OF THE LOSS OR THEFT OF A CARD, IMMEDIATELY.

CHANGES TO CARDHOLDER INFORMATION
AND REQUEST FOR ADDITIONAL CARDS

Changes to a cardholder's name, address, and organization should be immediately reported to your Approving Official who will forward the information to the Finance

Department.

Upon leaving the City or transferring to another department, you must return your card to your Approving Official and forwarded to the Finance Department.

All requests for new cardholders must be done in writing addressed to the Finance Department.

If you have any questions on the appropriate use of your procurement card, please contact your Approving Official or the Finance Department.

Process Summary

Department Head
1. Submit request for purchase card.

Finance Director
2. Review/approve department request for purchase card.

Department Head/Department Purchasing Authority
3. Approve purchases to be made with purchasing employee.
4. Authorize issuance of purchase card to purchasing employee.

Purchasing Employee
5. Make designated/approved purchase.
6. Obtain itemized receipt from vendor.
7. Submit vendor’s receipt; perform accounting for purchases and sign purchase card statement.

Department Purchasing Authority
8. Approve purchasing employee’s purchases.
9. Submit voucher, purchase statement, and vendor’s receipts to Finance Department.

Finance Department
10. Process reimbursement payment through A/P system.

References

a. *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date:
June 24, 2003

Policy Level:
2

P14 Purchasing With Petty Cash

Background

For many of the small, day-to-day purchases conducted on behalf of the City, the use of petty cash (imprest funds) can be a cost effective method of buying. It eliminates the writing of numerous requisitions, payment vouchers and warrants, thereby saving an appreciable amount of time, supplies and money. In addition, some vendors will not extend credit for small item purchases. In these instances, the use of petty cash permits timely acquisition of needed items. This procedure provides guidelines for the acquisition, use and accounting of petty cash funds, which in all cases, should be viewed as an exception to established purchasing procedures.

Policy

The purpose of purchasing with petty cash is to allow for the immediate acquisition of very inexpensive items. Petty cash is not to be used as a means of avoiding approvals and other purchasing controls. The Department Head, or delegated purchasing authority, is responsible for ensuring the proper use of petty cash. This is accomplished by approval and review of all purchases, and maintenance of a reasonable cash balance for department needs.

The department petty cash balance is determined and agreed upon by the Department Head and the Finance Director. It is maintained by periodic reimbursement for expenses made from the funds. There is no hard-and-fast rule for the dollar limit of specific purchases, however $25.00 is a recommended standard. Purchases over $25.00, in most cases, can and should be accomplished using the established procedures pertinent to the item(s) being acquired.

Acquisition of Petty Cash Funds

The initial acquisition of petty cash funds, or an increase to the existing approved balance limit, is accomplished by the submission of a request memo and payment voucher to the Finance Director. The memo, signed by the Department Head, should document the circumstances that justify the requested balance amount and the corresponding deviation from normal purchasing procedures. The request must be approved by the Finance Director prior to any payment to the operating department.

Use of Petty Cash

As mentioned above, use of petty cash is an exception to normal purchasing control procedures, and should be employed only when it is more advantageous to the City. The department purchasing authority should approve all petty cash purchases in advance.

When petty cash is taken from the department balance, the receiving employee must sign a receipt that specifies the amount taken, the nature of the purchase, the date, and the approval of the department purchasing authority. (Petty cash receipted may be obtained at most office supply stores). Following the purchase, thee employee returns any change from the funds taken and an itemized vendor's receipt for the purchase. The expense account to be charged for the purchase should be determined and written on the receipt at that time. The receipt for funds taken and the vendor's receipt must be attached and maintained for accounting and reimbursement of expenses.

In summary, at any given time, the department petty cash fund should contain a combination of cash and documentation accounting for the entire established fund balance. The documentation includes receipt for funds taken, vendor receipts, and payment vouchers requesting reimbursement.

Accounting for Petty Cash

Accounting for purchases made with department petty cash occurs during the periodic reimbursement for expenses. When the petty cash fun requires replenishment, the department purchasing authority submits a payment voucher for the amount of exhausted funds. The payment voucher must include a distribution of expenses to appropriate accounts, and receipt must be attached to document all purchases. The Finance Department will reimburse the operating department for the documented expenses, bringing the petty cash fund back up to its established balance.

The department purchasing authority should review all purchases made with petty cash to ensure proper use of the funds and implement corrective action for any misuses.

Process Summary

Department Head

1. Submit request memo and payment voucher for petty cash.

Finance Director

2. Review/approve department request for petty cash funds.
3. Issue warrant establishing approved fund balance.

Department Purchasing Authority

4. Approve purchases to be made with department petty cash.
5. Issue funds to purchasing employee.
6. Obtain signed receipt for funds from purchasing employee.

Purchasing Employee

7. Make designated/approved purchase.
8. Obtain itemized receipt from vendor.
9. Submit vendor's receipt and unused funds to department purchasing authority.

Department Purchasing Authority

10. Reconcile funds taken, vendor's receipt, change, and petty cash fund balance.
11. Determine expense account to be charged.
12. Attach vendor's receipt to petty cash receipt.
13. Submit voucher and vendor's receipts to Finance Department to request reimbursement for petty cash expenses.

Department Purchasing Authority

14. Process reimbursement payment through Accounts Payable system.

References

b. *Municipal Code* – Chapter 2, Article V Purchasing Control System

Adoption Date: June 24, 2003	Policy Level: **2**

APPENDIX

CITY OF BELMONT
SOUTH COUNTY FIRE PROTECTION AUTHORITY
INVESTMENT POLICY

(For purposes of application of this policy to the " South County Fire Protection Authority", the terms "City of Belmont" and "City Council", used herein, shall refer to "South County Fire Protection Authority" and "Commission of South County Fire Protection Authority", respectfully.)

TO: Belmont City Council
Belmont Finance Commission
Commission of South County Fire Protection Authority
Belmont City Manager/San Carlos City Manager
Belmont Finance Director/South County Fire Controller

FROM: Howard E. Mason, Jr., City Treasurer

RE: Annual Investment Policy

DATE: January 23, 2001

1.0 Policy:

It is the policy of the City of Belmont to invest public funds in a manner which will provide the highest investment return consistent with maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statues governing the investment of public funds.

2.0 Scope:

This investment policy applies to all investments as defined by the State of California Government Code accounted for in the City of Belmont 's Comprehensive Annual Financial Report and the South County Fire Protection Authority's General Purpose Financial Statements.

3.0 Prudence:

Investments shall be made with judgment and care--under circumstances then prevailing--which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

3.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objectives:

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

4.1 **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Belmont shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, **diversification** is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Funds invested with the California Local Agency Investment Fund administered by the California State Treasurer meet this requirement for diversification.

4.2 **Liquidity:** The City of Belmont's investment portfolio will remain sufficiently liquid to enable the City of Belmont to meet all operating requirements as reasonably anticipated.

4.3 **Return on Investments:** The City of Belmont's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City of Belmont's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority:

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer. The City Treasurer shall be responsible for all investment transactions undertaken and shall establish a system of internal controls to regulate the activities of authorized personnel.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Belmont City Clerk any material financial interests in financial institutions that conduct business within this jurisdiction.

7.0 Internal Control:

The City Council shall establish an annual process of independent review by an external auditor. The external auditor will review internal control and compliance with policies and procedures.

8.0 Reporting:

The City Treasurer shall provide to the City Council and Finance Commission monthly investment reports which provide a clear picture of the status of the current investment portfolio.

Schedules in the monthly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value and market value.

9.0 Investment Policy Adoption:

The City of Belmont's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the Finance Commission and any modifications made thereto must be approved by the City Council.

G:\treasury management\Investment Policies\012301 Investment Policy.doc

Adoption Date:
January 23, 2001

Policy Level:
1

B Reserves

Background

Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures. These resources also provide a first defense against deficit spending and help maintain liquidity when budgeted draw downs are inevitable.

Policy

Reserves may be used at the City Council's discretion to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities. These resources are intended to provide flexibility to respond to unexpected opportunities that may help the City of Belmont achieve its goals. The use of these funds may also be tied to an adverse change in economic indicators (such as declining staff levels or taxes) to ensure that the funds are not depleted before an emergency arises. Reserve levels below or above targets are authorized, subject to approval. The minimum and maximum targets are based as follows:

Fund	Minimum Target	Maximum Target	Basis
General Fund	$2,000,000	20% Operating Budget	Based on adopted operating expenditures, exclusive of transfers and capital outlay. Inter-period excesses or deficits are authorized.
Unanticipated Infrastructure Repair	$250,000	$500,000	Funds may be used to offset costs associated with unanticipated repairs to the City's infrastructure including streets, retaining walls, bridges, culverts, waterways, buildings, etc. Reserve levels below or above maximum are authorized, subject to approval. Source of funding is one time contributions from discretionary sources.
Fleet & Equipment Fund	Annual Replacement of Existing Assets	Long Term Replacement of Future Assets	Minimum reserve levels to ensure resources are available annually for replacement of existing assets. Maximum reserves will correspond to future fleet and equipment needs as identified in long term replacement schedule.
Benefit Stabilization	10 Year Floating	Full Amortization	Minimum reserves will correspond to floating average of compensated

Fund	Average		absences (vacation, sick leave, general leave, etc.). Maximum reserve levels shall fully amortize compensated absences; post employment benefits (PERS rate smoothing) and other benefits due to employees upon separation from City service.
Other Employee Benefit Internal Service Funds	Accrued Liabilities plus Probable IBNR	Accrued Liabilities plus Remote IBNR	Minimum reserves will correspond to accrued liabilities plus the provision for amounts incurred but not reported (IBNR) if two criteria are met: 1) it is probable that a successful claim will be asserted and 2) the amount can be reasonably estimated. Maximum reserve levels shall include provision for amounts incurred but not reported (IBNR) if two criteria are met: 1) it is remote that a successful claim will be asserted and 2) the amount can be reasonably estimated.

References

- *NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.*
- *Impact of Management Practices on Municipal Credit,* Fitch IBCA, May 4, 2000
- *Budgeting a General Fund Reserve*, CSMFO, February 18, 2000

Adoption Date:
June 26, 2001

Policy Level:
1

C

Contingency Appropriation

Background

Governments that demonstrate forward thinking and planning against unforeseen events, including potential budget shortfalls despite reasonable budgeting efforts, are viewed positively by public and the credit rating agencies. Governments should have meaningful contingency plans for dealing with financial, economic and social challenges posed by disasters and other unanticipated events.

Policy

The City Council establishes a $100,000 minimum contingency appropriation that may be used to pay for an emergency or an unanticipated occurrence. The amount shall be indexed to the Consumer Price Index, San Francisco Bay Area, CPI (U), and adjusted in increments of $25,000.

The use of contingency funds is subject to the following conditions:

- Resolution required.
- General Fund or subsidized fund appropriations increase, with no offsetting revenue, shall occur first from the contingency, as these funds have already been appropriated in the City's overall expenditure plan for the year.
- In the event that the total contingency is expended, the City Council, on a case by case basis, will decide to authorize a further expenditure from the City's General Fund unreserved fund balance.

References

- *NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.*
- *Impact of Management Practices on Municipal Credit,* Fitch IBCA, May 4, 2000

Adoption Date:
June 26, 2001

Policy Level:
1

D Community Group Funding

Background

The City of Belmont finds it desirous to promote organizations that benefit the community. Periodically, grants are awarded to facilitate implementation of programs and projects that contribute to the Community Vision.

Policy

The City Council has established a program to provide grants for community groups that demonstrate worthy proposals and contribute to the Community Vision.

Eligibility applicants must –

- Be a recognized community group as evidenced by Articles of Incorporation, Bylaws, or operating under a charter of a parent organization that has the above or can show evidence of qualifying for IRC 501 status.
- Demonstrate that activity or project is contributing to the Community Vision.
- Demonstrate that main beneficiaries of the proposal are residents of the City of Belmont.
- Certify compliance with this policy.

Criteria shall include –

- Groups must provide their ability to manage the grant and account for the use of public funds.
- Their activity must demonstrate community support through participation, volunteerism, innovation, sustainability, equity, etc.
- The applicant has made a significant financial or in-kind contribution.
- Requests generally shall be for a single or time-limited project or event and not for ongoing operational support.
- Formal application, on a form provided by the City Manager's Office, must be completed.
- Ability to contractually commit to delivery of products or services proposed.

Ineligible costs include –

- Retrospective costs.
- Debt servicing costs.
- Core operational costs associated with the delivery of products or services provided by the City of Belmont.
- Significant ongoing operational or accommodation costs.
- Philanthropic costs funding other organizations.
- Equipment, except where essential to the effectiveness of the project.

Funding levels are subject to annual appropriation and shall be proposed based on the prior year's allocation. In FY05, the amounts shall be established as follows:

Fund	Account	Amount *	Adjustment
General Fund	Community Group Funding	$64,500	The amount shall be indexed to the Consumer Price Index, San Francisco Bay Area, CPI (U), and adjusted in increments of $5,000.
RDA Project Fund	Community Group Funding	$17,500	The amount shall be indexed to the Consumer Price Index, San Francisco Bay Area, CPI (U), and adjusted in increments of $1,000.
RDA LMI Fund	Community Group Funding	$20,000	The amount shall be indexed to the Consumer Price Index, San Francisco Bay Area, CPI (U), and adjusted in increments of $1,000.

References

- *Community Group Funding Request Application.*

** Subject to reduction based on prior year allocation.*

Adoption Date: June 22, 2004	Revision Date: May 25, 2004	Policy Level: **1**

E	Purchase Orders and Contracts

As a separate project, the Purchasing Ordinance has been revised. Once approved by the City Council, a copy of the ordinance will be included by reference in the Appendix.

Adoption Date: June 24, 2003	Policy Level: **1**