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Financial Policies

City of Winston-Salem
Financial Management Services
Winston-Salem, North Carolina

Table of Contents

	<i>Page</i>
OPERATING BUDGET & FUND BALANCE POLICIES	1
Introduction.....	3
Operating Budget Policy.....	3
Revenue Policy	4
Expenditure Policy.....	5
Reserve and Fund Balance Policy.....	6
ASSET/LIABILITY MANAGEMENT POLICIES	9
Introduction.....	11
Capital Investment	11
Debt Policy.....	12
Cash Management and Investment Policy.....	14
ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICY.....	17
APPENDICES	21
Appendix 1 Swap Policy.....	23
Appendix 2 Investment Policy.....	29
Appendix 3 Winston-Salem Police Officers' Retirement System Funding Policy	39

OPERATING BUDGET & FUND BALANCE POLICIES

OPERATING BUDGET & FUND BALANCE POLICIES

Introduction

The City of Winston-Salem maintains comprehensive financial policies that cover a broad range of the elements of the City's financial plans and financial systems and support the management of overall financial resources. These policies are intended to:

1. Expand and diversify sources of revenue other than property taxes;
2. Maintain relatively low property taxes;
3. Facilitate capital improvements by maintaining adequate resources and reasonable financing capacity;
4. Augment resources by astute cash management;
5. Enhance management techniques to improve productivity and efficiency;
6. Provide self-sufficient public services that are similar in operation to private enterprises;
7. To maintain the City's AAA credit ratings by meeting or exceeding the requirements of rating agencies through sound financial policies;
8. To maintain and increase investor confidence in the City and to provide credibility to the citizens of the City regarding financial operations;
9. To comply with the North Carolina Budget and Fiscal Control Act and the policies of the North Carolina Local Government Commission; and
10. Encourage the use of local revenue to provide basic services instead of depending upon uncertain federal and state sources.

The financial policies that follow have been compiled by City management and approved by City Council.

Operating Budget Policy

- a) The City's Annual Budget Ordinance will be balanced in accordance with the Local Government Budget and Fiscal Control Act (G.S. 159-8(a)) and adopted by each July 1 (G.S. 159-13(a)).
- b) Budgetary accounting will be used for management control of all funds of the City.
- c) Annual budget ordinances are adopted on the modified accrual basis at the fund level and amended as required for the operations of the general, debt service, certain special revenue, and proprietary funds.
- d) Project or program budgets spanning more than one fiscal year are adopted, and amended as required, for certain special revenue, capital projects, and proprietary capital improvements.
- e) Administrative control is maintained through the establishment of detailed line item budgets.
- f) Budget amendments to increase the expenditures of any fund or to transfer appropriations between functions, the legal level of budgetary control, require approval by City Council.

- g) City internal service funds operate under financial plans approved by City Council when the budget ordinance is adopted.
- h) City expenditures and collection of revenues against budget will be reported periodically to City departments, City management, and the City Council.
- i) All unencumbered budget appropriations, except project or program budgets lapse at fiscal year end.

Revenue Policy

- a) Ad Valorem Tax – As provided by the North Carolina Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:
 - Assessed valuation will be estimated based upon historical trends and growth patterns in a conservative manner.
 - The estimated percentage of collection will not exceed the actual collection percentage of the preceding fiscal year, in accordance with State law.
 - The property tax rate will be set each year based upon the costs of providing general governmental services, meeting debt service obligations and building or maintaining any reserves or fund balances the Council deems necessary.
 - The Council committed to levy 5 cents of the base General Fund property tax rate beginning in fiscal year 1990-1991 as a funding source for the Debt Service Fund. The 5 cents shall be recalculated to an equivalent rate to generate the same dollar amount upon a revaluation of the property tax base.
- b) Economically Sensitive Revenues – The City has certain revenues, specifically occupancy and sales taxes, that can be adversely affected by regional and national economic conditions. Such revenues, while having the capability of substantial annual growth, will be budgeted in a conservative manner.
- c) User Fees may be established to cover the cost of services that can be individually identified and where costs are directly related to the provision of or to the level of service provided.
 - Emphasis on user fees results in the following benefits:
 - The burden on the Ad Valorem tax is reduced.
 - User fees are paid by all users, including those exempt from property taxes.
- d) Investment income is subject to variability based upon changes in prevailing interest rates, which cannot be predicted with certainty. Such revenue shall therefore be budgeted in a conservative manner within the Annual Budget Ordinance.
- e) The City is committed to seeking opportunities to invest in its programs and services by applying for grants from federal, state, and other outside agencies. The following guidelines shall be followed when considering any grant opportunities:

- Grant funding applications will be made after a grant has been evaluated for consistency with the City Council's goals and compatibility with City programs and objectives.
- All grant applications that require local matching funds and/or fund new positions shall be approved by the City Council prior to submitting the applications.
- All awarded grants can only be accepted by City Council action at which time the related budget shall be established. Recurring grants (e.g., HOME Investment Partnership Grants, Community Development Block Grants, etc.) that have been awarded in prior years are included in the project budget ordinance and adopted through the annual budget process.
- Grants that fund operating expenditures, including positions, but have a funding termination date must fully disclose that fact to the City Council prior to acceptance. Upon termination of the funding, City management will evaluate the benefit of funding those expenditures on an on-going basis with City funds and will make a recommendation to the City Council.
- The grant manager for each grant shall be the related department head. The grant manager is responsible for all grant monitoring, compliance, and reporting. The grant manager will provide copies of all documents to the Financial Management Services Department, which will maintain a grant file by fiscal year for each active grant.

Expenditure Policy

- a) Budgetary accounting is used for management control of all funds of the City. Annual Budget Ordinances are adopted on the modified accrual basis at the fund level and amended as required for the operations of the general, debt service, certain special revenue and proprietary funds.
- b) Project or program budgets spanning more than one year are adopted and amended as required for certain special revenue, capital projects, and proprietary capital improvements.
- c) Administrative control is exercised through the establishment of detailed line item budgets. Expenditure budgets shall be monitored throughout the fiscal year by department heads, the Financial Management Services Department, Budget Office and the City Manager. Budget compliance is the responsibility of the department head, Chief Financial Officer and the Budget Director.
- d) Budget amendments to total expenditures of any fund or between functions, which are the legal levels of budgetary control, require approval by the City Council. The City Manager or his designee is authorized to transfer appropriations within a fund or function.
- e) The budgeted expenditures for debt service for any variable rate debt or synthetic variable rate debt will be set to reflect the forecasted interest rate trend.

- f) For continuing contracts, funds will be appropriated in the Annual Budget Ordinance to meet current year obligations arising under the contract, in accordance with G.S. 160A-17.
- g) Payroll will be processed in accordance with the requirements of the Fair Labor Standards Act and IRS regulations. Overtime and benefit payments will be made in accordance with the City's Personnel Resolution.
- h) The City will utilize capital operating leases from the North Carolina Municipal Leasing Corporation for the procurement of equipment.
- i) The City will fund current expenditures with current resources and will strive to avoid balancing budgets utilizing one-time revenues.
- j) The City will employ the use of the carryover method for re-appropriating outstanding purchase orders and contracts as of the end of each fiscal year into the new fiscal year. The process shall be explained in detail in each year's budget ordinance.

Reserve and Fund Balance Policy

- a) In accordance with State Statute, appropriated fund balance in any fund will not exceed the sum of cash and investments less the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts.
- b) The City's policy is to maintain a minimum unassigned fund balance of 14% of the estimated expenditures in the General Fund. These funds will be maintained to avoid cash flow interruptions, generate investment income, eliminate the need for short-term borrowing, and maintain the City's credit ratings. ~~The annual increase to the unassigned fund balance will be transferred to the Housing Finance Assistance Fund and the Economic Development Projects Fund at 25% of the increase each in the following fiscal year.~~
- c) The City shall maintain a Debt Service Fund and all funds accumulated shall be used towards debt service, debt administration, and debt issuance. The City's policy is to maintain a minimum unassigned fund balance of 12.5% of the estimated expenditures in the Debt Service Fund.
- d) The City's goal is to maintain the following fund balances for internal service funds:
 - Workers' Compensation - a target fund balance of 1.0 times the operating expenditure budget to meet working capital needs and to serve as a reserve for catastrophic claims.
 - Health Benefits- a target fund balance of 12.5% of the operating expenditure budget to meet working capital needs and to serve as a reserve for catastrophic claims.
 - Dental and flex benefits - a target fund balance of 25% of the operating expenditure budget to meet working capital needs.
 - Fleet Services, Information Services, Central Warehouse and Employee Benefits – Rate charges should be established to be sufficient to cover operating and debt service budgets. These funds will not accumulate a fund

balance except to cover outstanding encumbrances at year-end. Any operating deficits will be charged out to the city departments as part of the normal year-end closing process

The City reserves the ability to retain some portion of any excess operating fund balance over the target range, from the preceding fiscal year for other purposes in a particular fiscal year.

- e) The City will maintain the following enterprise fund cash reserves, which are defined as a fund's cash and investments exclusive of bond proceeds:
- Water and Sewer Utility – a target cash reserve of 1.0 times the operating and debt service expenditure budget to meet working capital needs, fund pay-as-you-go capital spending needs, maintain revenue bond coverage requirements and serve as a hedge to variable rate debt.
 - Solid Waste Management – in addition to reserves legally required for closure and post-closure costs, a target cash reserve of 0.5 times the operating and debt service expenditure budget to meet working capital needs and fund pay-as-you go capital spending needs.
 - Stormwater Management – a target cash reserve of 2.0 times the operating and debt service expenditure budget to meet working capital needs and fund pay-as-you go capital spending needs.
 - Fairgrounds – a target cash reserve of 0.5 times the operating and debt service expenditure budget to meet working capital needs and fund pay-as-you go capital spending needs.

Any excess operating cash reserves over the target range, from the preceding fiscal year if any, may be used as a pay-as-you-go source for capital needs. The City reserves the ability to retain some portion of this excess, if needed, for other purposes (if legally permitted) in a particular fiscal year. The City will maintain cashflow modeling for all enterprise funds to assist in setting rates and user fees and capital improvement funding needs.

ASSET/LIABILITY MANAGEMENT POLICIES

ASSET/LIABILITY MANAGEMENT POLICIES

Introduction

1. The City will seek to incorporate investment and debt structuring decisions with the goal of using each side of the balance sheet to mitigate, or hedge, cash flow risks posed by the other side of the balance sheet.
2. The City considers short-term investments to be effective hedges to variable rate debt because movements in interest rates should have offsetting impacts upon both.
3. The Chief Financial Officer is designated to monitor and report on financial market conditions and their impact on performance of debt, investments, and any interest rate hedging products implemented or under consideration.
4. The Chief Financial Officer is designated as the individual responsible for negotiating financial products and coordinating investment decisions for debt structure. The Chief Financial Officer is designated as the individual responsible for recommending debt structure to the Council.
5. The City will pay the annual required contribution for its pension and other post-employment benefits, as determined by an independent actuary, to ensure its obligations to retired employees are met on a timely basis. A Funding Policy for the Winston-Salem Police Officers' Retirement System is attached.

Capital Investment and Debt Policy

Capital Investment Policy

- a) The City will update and readopt annually a six-year capital improvements plan (CIP) which projects capital needs and details the estimated costs, description and anticipated funding sources for capital projects.
- b) The CIP will be updated on an annual basis in conjunction with the annual operating budget process.
- c) The first year of the six-year CIP will be the basis of formal fiscal year appropriations during the annual budget process.
- d) The CIP will generally address those capital assets with a value of \$50,000 or more and a useful life of ten years or more.
- e) The City acknowledges pay-as-you-go as a capital financing source, but will ultimately determine the most appropriate financing structure for each capital project on an individual basis after examining all relevant factors of the project.
- f) The City will maintain a target funding of at least 10% of its Utility Fund operating budget from the budget of the fiscal year most recently ended as pay-as-you-go capital financing reserves.

- g) The capitalization threshold for fixed assets shall be \$5,000. The threshold will be applied to individual fixed assets and not to groups of fixed assets. Fixed assets will only be capitalized if they have a useful life of at least two years following the date of acquisition. A physical inventory of capitalized fixed assets will be performed, either simultaneously or on a rotating basis, so that all fixed assets are physically accounted for at least once every two years.

Debt Policy

- a) The City utilizes various financing techniques to assist in the funding of capital improvements and equipment purchases. Debt may be incurred for financing capital assets that, because of their long-term nature or because of budgetary restraints, cannot be acquired from current or budgeted resources. Debt will not be used for operational needs.
- b) In accordance with the Capital Improvement Program, planned issuance of financing includes: two-thirds general obligation bonds; general obligation bonds to be authorized by bond referenda; leasing through the North Carolina Municipal Leasing Corporation; special obligation bonds, revenue bonds for storm water and water and sewer utilities; limited obligation bonds; mortgages for housing development or any other financing instrument allowed under North Carolina law.
- c) The City will seek to structure debt and to determine the best type of financing for each financing need based on the flexibility needed to meet project needs, the timing of the project, taxpayer or rate payer equity, and the structure that will provide the lowest interest cost in the circumstances.
- d) A debt service fund is maintained to provide for the accumulation of resources and the payment of debt service for non-utility debt.
- e) Debt service models are maintained for utility and non-utility debt (serviced by the Debt Service Fund) which identifies resources available for current and future payment of principal and interest on all outstanding debt. Projections must be made prior to the issuance of additional debt which will clearly identify the impact of future debt service and the adequacy of designated resources. Requirements for future increases of designated resources must be included in the decision-making process for authorization of additional debt.
- f) Debt financing will be in the City Council's review and approval of the CIP.
- g) New debt issued by the city may be for varying maturity terms depending upon: (1) the expected life of the asset being financed; (2) the existence of cash and investment balances which may be used to reduce the overall cost of capital improvements.
- General Obligation debt will normally have a term of 20 years or less.
 - Other General Government debt will normally have a term of 20 years, debt that deals in areas of economic development, downtown development and other similar purposes may have up to a 25 year term.
 - Utility (Water/Sewer) debt will normally have a term of 30 years or less and a target average maturity of no more than 20 years.

- h) Debt Service coverage for Water/Sewer Revenue bonds will be maintained in a range, with the lower end of the range approximating 1.20 to 1.50 times.
- i) Debt Service coverage for Stormwater Revenue Fee bonds will be maintained in a range, with the lower end of the range at a minimum of 2.0 times.
- j) Debt Affordability:
- The net general obligation debt of the City, as defined in G.S. 159-55, is statutorily limited to eight percent of the assessed valuation of the taxable property within the City. The City will utilize a self-imposed ceiling of 4%.
 - Annual general governmental debt service as a percentage of the general governmental expenditure budget will be targeted at 15% to 20%.
 - The City will not allow the amount of general obligation debt per capita to exceed \$1,000.
 - The City will amortize 50% or more of its General Obligation debt principal, on a moving average basis, within ten years.
 - The City will incorporate the use of variable rate debt as allowed by the Debt Management Section of the Local Government Commission, into its debt structure. Variable rate debt shall not exceed 20% of the City's total, non-Utility debt outstanding. Variable rate debt shall not exceed 30% of Utility fund debt outstanding.
 - The City will monitor the municipal bond market for opportunities to obtain interest rate savings by refunding by forward delivery, currently refunding or advance refunding outstanding debt. The estimation of net present value savings for a traditional fixed rate refunding should be, at a minimum of 3% of the refunded maturities before a refunding process begins. The estimation of net present value savings for a synthetic fixed rate refunding should be, at a minimum, in the range of 5% to 6% of the refunded maturities before a refunding process begins. Advance refunding should not be performed if the negative arbitrage is more than 25% of the Net Present Value of the refunding savings.
 - The City will strive to retain its AAA (the highest possible bond ratings) in order to minimize the City's interest costs. The City will also strive to retain no less than AA+ bond ratings on all Utility Fund debt issues.
 - The City will normally obtain three debt ratings (Fitch Ratings, Moody's, Standard & Poor's) for all publicly sold debt issues.
 - The City recognizes the significance of the debt portfolio and the need for the ability to properly manage and maintain that portfolio. The Chief Financial Officer will develop and maintain a current model of all debt utilizing appropriate software.
 - Interest Rate Swap Agreements may be a part of the City's borrowing strategy in conformance with the attached swap policy, general market conditions, City liquidity and ability to manage swap risk and other similar strategies.

Cash Management and Investment Policy

a) Receipts

- Cash receipts will be collected as expediently as reasonably possible to provide secure handling of incoming cash and to move these moneys into interest bearing accounts and investments.
- All incoming funds will be deposited daily as required by State law.
- The Internal Audit Department is responsible for conducting at least two random or risk based internal audits of cash receipting locations per fiscal year.

b) Cash Disbursements

- The City's objective is to retain monies for investment for the longest appropriate period of time.
- Disbursements will be made timely on the agreed-upon contractual date of payment unless earlier payment provides greater economic benefit to the City.
- Inventories and supplies will be maintained at minimally appropriate levels for operations in order to increase cash availability for investments purposes.
- The Chief Financial Officer's or City Treasurer's signature is required for City checks. Electronic signature of checks is approved via secured software.

c) Investment Policy

- **Policy**
It is the policy of the City to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the City and conforming to all State statutes governing the investment of idle funds. The City's Investment Policy is included as Appendix 2.
- **Internal Control**
The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

- **Collateralization**
North Carolina General Statutes allow the State Treasurer and the Local Government Commission to prescribe rules to regulate the collateralization of public deposits in North Carolina banks. These rules are codified in the North Carolina Administrative Code – Title 20, Chapter 7 (20 NCAC 7). The Pooling Method of collateralization under 20 NCAC 7 allows depositories to use an escrow account established with the State Treasurer to secure the deposits of all units of local government. This method transfers the responsibility for monitoring each bank’s collateralization and financial condition from the City to the State Treasurer. The City will only maintain deposits with institutions using the Pooling Method of collateralization.
- **Pooled Cash and Allocation of Interest Income**
All moneys earned and collected from investments other than bond proceeds will be allocated monthly to the various participating funds and component units based upon the average cash balance of each fund and component unit as a percentage of the total pooled portfolio. Earnings on bond proceeds will be directly credited to the same proceeds. Investment earnings from all general governmental funds shall be allocated to the Debt Service Fund.
- **Software**
The City recognizes the significance of the size of its investment portfolio and of the requirements contained in this policy. The City will utilize investment software that enables efficient transaction processing and recording, sufficient portfolio monitoring and the ability to maintain reporting compliance with this policy.

**ACCOUNTING, AUDITING, AND FINANCIAL
REPORTING POLICY**

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICY

1. The City will maintain accounting systems in compliance with the North Carolina Local Government Budget and Fiscal Control Act and enable the preparation of financial statements in conformity with generally accepted accounting principles (GAAP).
 - ✓ The basis of accounting within governmental funds will be modified accrual.
 - ✓ The basis for accounting within all Enterprise and Internal Service Funds will be the accrual basis.
2. Financial systems will be maintained to enable the continuous monitoring of revenues and expenditures or expenses. Monthly expenditure/expense reports will be provided to each director and department head for their functional area and online, real time, view only, access to the financial system will be made available to department heads and other staff as much as practical.
3. The City will place emphasis on maintenance of an accounting system which provides strong internal budgetary and financial controls designed to provide reasonable, but not absolute, assurance regarding both the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and reports, as well as the accountability of assets.
4. An annual audit will be performed by an independent certified accounting firm that will issue an opinion on the annual financial statements as required by the North Carolina Local Government Budget and Fiscal Control Act.
5. The City will solicit proposals from qualified independent certified public accounting firms for audit services. The principal factor in the audit procurement process will be the auditor's ability to perform a quality audit. The City will enter into a multiyear agreement with the selected firm for a period of three fiscal years. Firms are not barred from consecutive contract awards.
6. The Financial Management Services Department will conduct on an annual basis internal audit reviews, specifically focusing upon cash receipts procedures.
7. The City will prepare a Comprehensive Annual Financial Report (CAFR) in compliance with established criteria to obtain the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting and will be submitted to that award program each year.
8. Full and complete disclosure will be provided in all regulatory reports, financial statements and debt offering statements.
9. The Financial Management Services Department will develop and maintain a Financial Procedures Manual as a central reference point and handbook for all financial, accounting and recording procedures.
10. The Information Systems Department will establish, document and maintain a Computer Disaster Recovery Plan and will provide for the daily backup of data and the offsite storage of the same.

APPENDICES

SWAP POLICY

Purpose

Interest rate Swap Agreements can be an integral part of the City's asset/liability and debt management strategy. The City shall not enter interest rate swaps for speculative purposes. This policy will govern the use by the City of Winston-Salem, North Carolina of Swap Agreements.

Definitions

Chief Financial Officer - person serving as the responsible finance officer of the City.

City - City of Winston-Salem, North Carolina.

City Manager - the person serving as the City Manager of the City.

Swap Agreement - written contract entered into in connection with debt issued or to be issued by or on behalf of the City in the form of a rate swap agreement, basis swap agreement, forward rate agreement, interest rate option agreement, rate cap agreement, rate floor agreement, rate collar agreement, swaption, option, derivative, synthetic instrument or other similar agreement, including any option to enter into or terminate any of the foregoing or any combination of such agreements.

Authority

The City Manager will be authorized to execute Swap Agreements upon recommendation by the Chief Financial Officer and approval by the City Council. Each Swap Agreement must be a written contract reviewed and approved by the City Attorney or his designee. Each Swap Agreement shall set forth, where applicable, the notional amount, security, payment, and all other financial terms of the Swap Agreement between the City and the qualified swap counterparties. The Swap Agreement shall also include the operative agreements, contracts, and other documents to be used in the transactions.

The Conditions under which Swap Agreements may be entered into

A. Purposes

The City may use a Swap Agreement for the following purposes only:

- (a) To achieve significant savings as compared to a product available in the debt market.
- (b) To achieve more flexibility in meeting the City's overall financial objectives than can be achieved in conventional markets.

B. Guidelines:

Legality - City must receive an opinion acceptable to the market from a nationally recognized bond counsel law firm acceptable to the City Manager and the Chief Financial Officer that the Swap Agreement is a legal, valid and binding obligation of the City and entering into the transaction complies with applicable law and that the Swap Agreement is consistent with this policy. Swap Agreements must meet the requirements of the Local Government Commission of North Carolina.

Goals - Swap Agreement must clearly state the goals to be achieved through the swap transaction and must have execution parameters consistent with the stated goals.

Rating Agencies - Swap Agreement will conform to outstanding covenants made to credit enhancer, liquidity providers, surety providers, bondholders, and other creditors.

Impact on Variable Rate Capacity - Impact of the Swap Agreement on the City's variable rate debt capacity must be quantified prior to execution so as not to hinder the City's ability to issue variable rate bonds or commercial paper.

Explanation of Risks and Benefits - Swap Provider/Counterparty shall provide analysis necessary for the City's staff, in consultation with the City's financial advisor, to explain the costs, benefits, risks and other considerations regarding each particular Swap Agreement to the City Council as required.

Debt Constraint - Swap Agreement will not contain terms that restrict the ability of the City to comply with additional bonds tests or anti-dilution tests and will not create cross defaults to the City debt below prescribed threshold amounts.

Exit Strategy - Mechanics for determining termination values at various times and upon various occurrences must be explicit in the Swap Agreement and the City should obtain estimates from its Financial Advisor and/or the Counterparty of the potential termination costs which might occur under various scenarios and consider how such costs would be funded.

C. Aspects of Risk Exposure Associated with a Swap Agreement

Before entering into a Swap Agreement, the City shall evaluate all the risks inherent in the transaction. These risks to be evaluated could include counterparty risk, termination risk, rollover risk, basis risk, tax event risk, and amortization risk.

- 1) **Management of Swap Transaction Risk** - Certain risks will be created as the City enters into swap transactions with Counterparties. In order to manage the associated risks, guidelines and parameters for each risk category are as follows:
 - a) **Counterparty Risk** - Risk of Counterparty default can be reduced by limiting swap transactions between the City and any single Counterparty. In addition, the City may require the Counterparty to post collateral on a mark-to-market basis, in accordance with the guidelines under Collateral Requirements.
 - b) **Termination Risk** - Optional Termination: City shall have the right to optionally terminate a swap transaction at any time over the term of the swap transaction (elective termination right) at the then-prevailing market value of the swap. In general, exercise of the elective termination right should produce a benefit to the City, either through receipt of a payment from a termination, or if a termination payment is made by the City, in conjunction with a conversion to a more beneficial (desirable) financial arrangement for the City.
 - c) **Amortization Risk (Term)** - City shall consider the slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, termination value and the impact that the term of the swap transaction has on the overall exposure of the City in determining the appropriate term of any swap transaction. Each swap transaction shall reflect as closely as possible the amortization of the underlying debt or shall be in place for no longer than the period of time that matching assets are available to hedge the transaction.
 - d) **Liquidity Risk** - City will consider if the swap market is sufficiently liquid (i.e., if enough potential Counterparties participate actively in the market to assure fair pricing) for the type of swap transaction being considered and the potential ramifications of an illiquid market for such types of swap transactions. The City may enter into liquidity or credit agreements with liquidity providers and/or credit enhancers to provide for issuance of variable rate debt if part of the synthetic structure of the swap.
 - e) **Basis (Index) Risk (including Tax Risk)** - Any index chosen as part of an interest rate swap transaction shall be a recognized market index, including but not limited to The Bond Market Association Municipal Swap Index (BMA) or London Interbank Offering Rate (LIBOR).

D. Counterparty Selection Criteria

City may enter into a Swap Agreement if the counterparty has at least two long-term, unsecured credit ratings in at least the double A category from by at least two of the nationally recognized rating agencies (Fitch Ratings, Moody's or S&P) and the counterparty has demonstrated experience in successfully executing Swap Agreements and has a minimum capitalization of \$50 million. The City may also enter into a Swap Agreement if the counterparty has at least two long-term, unsecured credit ratings in the single A category or better from Fitch Ratings, Moody's, or S&P only if (a) the counterparty either provides a guarantor or assigns the agreement to a party meeting the rating criteria in the preceding sentence or (b) the counterparty (or guarantor) collateralizes the Swap Agreement in accordance with the criteria set forth in this Policy and the transaction documents.

If the rating of the counterparty, or if secured, the entity unconditionally guaranteeing its payment obligations, does not satisfy the requirements of the Counterparty Selection Criteria, then the obligations of the counterparty will be collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America and such collateral must be deposited with financial institution serving as a custodial agent for the City.

E. Collateral Requirements

Collateral posting requirements between the City and each swap Counterparty should not be unilateral in favor of the Counterparty. As part of the swap transaction, the City may require that collateral to secure any or all swap payment obligations be posted.

F. Form of Swap Transactions and Other Documentation

Each interest rate swap transaction shall contain terms and conditions as set forth in the International Swap Dealers Association, Inc. ("ISDA") Master Agreement and such other terms and conditions included in any schedules, confirmations and credit support annexes as approved in accordance with City's swap policy pertaining to that swap transaction.

In negotiated swap transactions, the Counterparty shall provide a disclosure memorandum that shall include an analysis, by the Counterparty and the City's financial advisor, of the risks and benefits of the transactions, with amounts quantified. This analysis should include, among other things, a matrix of maximum termination values over the life of the swap transaction. In negotiated transactions, the Counterparty shall also affirm receipt and understanding of City's Swap Policy, and shall further affirm that the contemplated transactions fit within the Swap Policy as described. Modification of Swaps: Each swap resolution should provide specific approval guidelines for the swap transactions to which it pertains. These guidelines may provide for modifications to the approved swap transactions, provided such modifications do not extend the average life of the term of the swap, increase the overall risk to the City resulting from the swap, or increase the notional amount of

the swap beyond pre-approved levels. The City officials authorized to execute Swap Agreements are solely the authorized officials who can approve or execute modifications to Swap Agreements.

G. Methods by which a Swap Agreement is to be procured

- 1) ***Negotiated Method*** - City may procure a Swap Agreement by a negotiated method under any of the following conditions:
 - (a) If the Chief Financial Officer makes a determination that, due to the size or complexity of a particular swap, a negotiated transaction would result in the most favorable pricing and terms
 - (b) If a derivative embedded within a refunding issue is proposed and meets the City's savings target and if the City receives a certification from an independent financial institution or financial advisor that the terms and conditions of the Swap Agreement provides the City a fair market value as of the date of its execution in light of the facts and circumstances without incurring speculative risk then the City may proceed with the refunding.

- 2) ***Competitive Method*** - City may also procure a Swap Agreement by competitive bidding. The competitive bid can limit the number of firms solicited to no fewer than three. The City may determine which parties it will allow to participate in a competitive transaction. In situations in which the City would like to achieve diversification of counterparty exposure, the City may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid. The parameters for the bid must be disclosed in writing to all potential bidders.

H. Long-Term Implications

In evaluating a particular transaction involving the use of Swap Agreement, the City shall review long-term implications associated with entering into the Swap Agreement, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations.

The City will also review the underlying economics of each swap transaction with respect to the impacts on the annual City budget. The monetary sums included in the budget will be based on prudent expectations for swap economics to become available during a budget year. At the conclusion of the budget year an evaluation of actual performance to budget expectations will be conducted for purposes of making adjustments, if needed, to the current year budget.

The City shall not enter into leveraged swap transactions. The tax risk and impact to the City of each swap transaction shall be detailed through the Counterparty disclosure requirements and Other Documentation.

The City will perform on-going monitoring of the various provisions of the swap documents and payments to be made or received. The City will meet all GASB reporting requirements for Swap Agreements.

I. Swap Termination

The City will constantly monitor the existing swaps for the Water and Sewer Utility, and others entered into in the future, if any, to determine the economic viability of refunding the swapped transaction. Managing the potential future risks of a swap is also a City priority and will be considered as part of a refunding opportunity economic analysis.

Given that the City's general policy on swap transactions is that they will be more cost efficient than other options when entered into, if an ability to terminate the swap and refund the transaction arises on a break-even or better savings basis the City will consider doing so. As with all swap transactions the City will use a swap advisor and work with the LGC in determining the best use of City ability to terminate a swap.

J. Dodd Frank Act

Title VII of the Dodd-Frank Act requires regulators to establish regulations for the swap industry. These regulations apply to both swap products and market participants, including the City of Winston Salem. The Commodities Futures Trading Commission ("CFTC") regulates "swaps" and "swap dealers" and the Securities and Exchange Commission ("SEC") regulates "security-based swaps" and "security-based swap dealers." External Business Conduct Standards (EBCS) regulations issued by the CFTC apply to both the City of Winston Salem and its existing Swap counterparties (Citigroup Global Markets). EBCS applies not only to new swaps but to material amendments to, and novation of, existing swaps. EBCS compliance requires the City of Winston Salem to have a qualified independent representative (a "QIR") that is "independent" of the Citi swap dealer. The City of Winston Salem is required to have adopted policies and procedures to select its QIR. It is the City of Winston Salem's policy that its regular debt Financial Advisor will also serve as the City's QIR and will provide documentation as required that the Financial Advisor has qualified under CFTC regulations to serve in that capacity and that the QIR has not had any business relationships with Citigroup Global Markets or other counter party to a City of Winston Salem Swap that would disqualify it from serving as the QIR. Such documentation should be provided in letter form at least annually. Should the City's regular debt Financial Advisor not obtain or retain its QIR certification or should it have a conflict that will prevent it from serving as the QIR, then the City will solicit quotes and qualifications from at least three qualified Financial Advisors to serve as its QIR with the selection being based first on qualifications and secondly on price should qualifications be equal. The City will consult with its QIR when considering all swap proposals and swap transactions.

INVESTMENT POLICY

The Investment Policy (the “Policy”) for the City of Winston-Salem, North Carolina (the “City”), applies to all funds, which are under the direct control of the City Council of the City. The Policy does not include any financial assets under the direct control of North Carolina Municipal Leasing Corporation and Risk Acceptance Management Corporation. At such time as the control of these assets passes to the City, then this Policy will apply.

I. Investment Policy

The City Council of the City of Winston-Salem, North Carolina, establishes this Policy for investment of all public, proprietary, and fiduciary funds in accordance with all applicable North Carolina General Statutes. The overall objective of this Policy is to use total return strategies that are intended to achieve investment returns comparable to financial market indices for each asset class in accordance with the guidelines stated herein.

II. Investment Authority

In accordance with North Carolina General Statute § 159-30(a), a local government may deposit at interest or invest all or part of the cash balance of any fund. The Chief Financial Officer shall manage investments subject to this Policy. The Chief Financial Officer shall have the legal authority to purchase, sell, or exchange securities on behalf of the City. The investment program for the City shall be managed so that investments and deposits can be converted into cash when needed. This Policy is established to supplement existing statutory authority.

III. Legal Requirements

Investment of governmental funds, which does not include retirement funds, other post-employment benefits reserves, employee benefit and risk reserves, cemetery perpetual care funds and amounts designated as capital reserves by the City Council, is controlled by N.C.G.S. § 159-30. Capital reserves for purposes of the Policy shall mean fund balance or net assets of any designated fund, which probably will not be required for liquidity purposes within 3 years and shall not mean capital reserves that may be established in accordance with §159-18 for the accumulation of funds for specified capital improvements.

Proceeds of debt issues, which may include, but are not limited to General Obligation, Special Obligation, Limited Obligation, Revenue bonds, Certificates of Participation, and Installment Purchases, shall be invested in N.C.G.S. § 159-30 compliant investments since these funds are required to be expended within 3 years.

Senate Bill 1479, authorizes the investment of retirement, employee benefits and risk reserves, cemetery perpetual care funds, and capital reserves as designated by the City

Council to be invested in the types of “**Securities and other investments authorized by State Law for the State Treasurer**” in N.C.G.S. § 147-69.2 as now written or hereafter amended.

Investment Restrictions and Requirements in addition to N.C.G.S. § 147-69.2:

The City Council specifically authorizes the Chief Financial Officer and designees to invest eligible assets in any investment available to the State Treasurer under N.C.G.S. § 147-69.2, except as restricted in this policy. Qualified Investment Assets exclude amounts in demand deposit bank accounts and the North Carolina Capital Management Trust. The City Council specifically provides for differences and restrictions from N.C.G.S. § 147-69.2 as follows:

- No more than 4%, based upon market values, of the City’s total equity investments may be invested in one company.
- The City may own no more than 3% of the total issued and outstanding equity shares of a single company.
- No more than 50% of the market value of Qualified Investment Assets are permitted in investment companies registered under the Investment Company Act of 1940 (mutual funds and exchange-traded funds).
- Minimum qualifications for Investment Managers that may be selected to direct investment of City assets include \$200 million total assets under management and a 5-year performance record. The City Manager and Chief Financial Officer are authorized to make reasonable reductions to the minimum length of performance records and assets under management of minority- or women-owned Investment Managers with the recommendation of the Investment Consultant.
- Fixed income investments are restricted to Investment Grade bonds. Investment Grade is defined as a fixed income security bearing one of the four highest ratings of at least one nationally recognized rating service when acquired. Should the quality rating of any company, other organization, or legal entity fall below the four highest ratings after a security is acquired, the Chief Financial Officer, City Treasurer, Investment Analyst and Investment Consultant will assess the situation and respond according to the best long-term interest of the City.
- Fixed income investments shall at all times equal or exceed 20% of the market value of all Qualified Investment Assets of the City.
- Fixed income corporate securities for any entity located outside of the U.S. are required to be in Yankee bond form only.
- Fixed income mutual funds or exchange traded fixed income funds are limited to 5% of the market value of Qualified Investment Assets of the City and may invest in convertible bonds. Fixed income funds with minor allocations to foreign sovereign

debt, emerging market debt, and high yield debt and bank loans are permitted within the 5% fund limit.

- The City may not invest in hedge funds, private equity funds, timber land, currency hedges, and other higher risk investments.
- The City is limited to investing in international equity securities that trade in U.S. dollar denominated form. A specific exception applies to this restriction such that the City may invest up to 5% of the Qualified Investment Assets in common or preferred stock issued in non-dollar denominated securities held in a mutual fund or exchange traded fund (e.g. emerging markets or developing markets).
- The City is limited to investing no more than 10% of the Qualified Investment Assets in public equity (REITs, REOC's) and Investment Grade public traded real estate debt. The City is not permitted to directly invest in real estate ownership.
- The City is limited to investing no more than 5% of the Qualified Investment Assets in an inflation protection portfolio that may include TIPs and investment grade floating rate domestic securities.

IV. Delegation of Authority

The implementation of this Policy is delegated to the City Manager and Chief Financial Officer. The City Manager and Chief Financial Officer are responsible for investment and accounting procedures, which will be managed by the City Treasurer and Investment Analyst, to safeguard assets and govern the day-to-day investment activities necessary to successfully execute this Policy. No person may engage in an investment transaction except as provided by procedures, which conform to this Policy. The Chief Financial Officer and City Treasurer shall be responsible for all transactions undertaken and shall establish a system of control to regulate the activities of external Investment Managers and subordinate employees.

Investment Consultants and Investment Managers — Investment Consultants have been employed to assist the City in the selection and on-going evaluation of Investment Managers for fixed income and equity investments. See “**Externally Managed Investments**” in this Policy.

V. Investment Objectives

The following objectives shall be considered in decision-making for investments of the various portfolios of the City:

Prudence — the standard to be used by city officials shall be the “**prudent person**” standard and shall be applied in the context of managing the overall portfolio. Investment officials and staff acting in accordance with this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or adverse market price changes, but are expected to take appropriate actions to minimize the effects of adverse market developments over a reasonable timeframe.

Safety of Capital — Safeguarding principal, over a reasonable timeframe depending upon asset allocation and risk tolerance of an individual portfolio, is the foremost objective of the investment program. To attain this objective, diversification is required to minimize potential losses on individual securities, and asset allocation strategies, which recognize each portfolio’s risk tolerance, to minimize losses on classes of investments.

Maintenance of Adequate Liquidity — Investment portfolios of the City shall be designed to remain sufficiently liquid to meet the operating requirements, which might be reasonably anticipated, for each individual fund.

To the extent possible, the City will match investment of operating funds with anticipated cash flow requirements. The City will not directly invest internally managed investments of operating funds in securities maturing more than five years from the date of the purchase.

Return on Investments — Investment portfolios shall be designed throughout budgetary and economic cycles, with the objective of attaining the rate of return (interest, dividends, and market value changes) over time (3 to 5 year timeframe for equity investments) commensurate with the risk constraints of each investment portfolio and the cash flow characteristics of the portfolio.

Risk Tolerance — The City provides risk tolerance information to its Investment Consultants and Investment Managers, so that assets are managed in a manner consistent with the City’s objectives and investment strategy as designated in this statement of investment policy. The City defines risk as the chance of recognizing a permanent loss, not simply short-term price fluctuation. The risk management objective is to manage the City’s assets with the goal of capital preservation relative to inflation risk by avoiding permanent impairment of the capital of the City. This is consistent with the long-term time horizons, diversification, and allocations mentioned throughout this Policy.

Ethics Standards and Conflicts of Interest — City officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. These officials and employees shall disclose to the City Manager and/or Chief Financial Officer any material personal financial interests in financial institutions that conduct business with the City’s investment program. In addition, they shall further disclose any material personal financial or investment position that could be related to the performance of the City’s portfolios.

VI. Authorized Financial Dealers and Institutions

The City Treasurer will maintain a list of the names and addresses of financial dealers, and institutions and contact officials that are authorized to be depositories of public funds, or provide safekeeping (custodian) of investment assets, and engage in investment transactions with or on behalf of the City.

Cash — Deposits of public funds shall be in qualified public depositories as established by North Carolina State Statutes. In addition, the City has authorized the Chief Financial Officer to establish deposit accounts, based upon valid business or liquidity needs, with any bank located in the City that participates in the North Carolina State Treasurer’s collateral pool and with the North Carolina Capital Management Trust, established by the State Treasurer.

Internally Managed Investments — The Chief Financial Officer, City Treasurer, and employees, designated by the Chief Financial Officer, are authorized to purchase fixed income investments only from financial institutions and broker/dealers that have an office within the City. Financial institutions and broker/dealers that desire to become qualified dealers for investment transactions must supply the City Treasurer with the following: audited financial statements, proof of state registration, and proof of National Association of Security Dealers certification. An annual review of the financial condition and registrations of qualified dealers will be conducted by the City Treasurer.

VII. Externally Managed Investments

The City Council authorizes and approves Investment Consultants. The Chief Financial Officer and City Treasurer have the authority, with the active assistance of the Investment Consultants, to select and employ Investment Managers, subject to the approval of the City Manager, as needed to direct investment activities of City portfolios in accordance with this Policy. The City shall have at least three fixed income Investment Managers and at least three active equity Investment Managers.

Investment Managers selected in accordance with this Policy shall make all investments in equity securities on behalf of the City and none shall be made by City staff.

The assets authorized to be invested with external Investment Managers may be invested through any of the following:

- Investment companies registered under the Investment Company Act of 1940; and individual, common, or collective trust funds of banks and trust companies; that invest primarily in authorized investments as well as mutual funds and exchange traded funds.
- Contractual arrangements in which Investment Managers have full and complete discretion and authority to invest assets specified in such contractual arrangements in authorized investments. No Investment Manager is permitted to have custody of assets.

Multiple Investment Managers will be used to provide complimentary investment styles. All investment portfolios of the City of Winston-Salem will be adequately monitored for risk and performance considerations. The Investment Managers will employ appropriate risk control measures which are needed to respond to a rapidly changing investment environment. Appropriate investment targets and indices shall be communicated to Investment Managers and performance shall be reviewed quarterly by the Investment Consultant.

VIII. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City or directed by Investment Managers on behalf of the City shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be listed in the City's name if issued only in book entry form or held by a third party custodian designated by the Chief Financial Officer and City Treasurer and evidenced by safekeeping receipts.

IX. Asset Allocation and Diversification

To achieve growth on invested assets, it is important to use the concepts of asset allocation and diversification. Diversification is simply the concept of picking investments from each legally available class. Effectively, it is the "don't-put-all-your-eggs-in-one-basket" theory. This approach makes sense in investing because all investment classes do not generally behave the same way in given financial markets. In addition to selecting different asset classes for investments, selecting different Investment Managers using various styles and disciplines is an important part of diversification.

Asset allocation is the process of putting diversification into effect. It is the practice of selecting different amounts of each of the different available asset classes to create investment strategies designed to accomplish specific investment goals. In general, return on investments over time is largely due to the important concept of asset allocation. The Chief Financial Officer and Investment Consultants will determine strategic asset allocations between fixed income, equity and other portfolio asset classes depending upon expected market conditions. They will set percentage target allocations for each asset class in the portfolio, and set percentage limits that asset classes should not exceed without rebalancing. Similar target allocations will be set for the various investment styles within the equity and fixed income portfolios. Asset allocations are to be reviewed at least annually and more frequently if needed. Amounts authorized as eligible for investments in equities are included in Table I.

The actual investments may exceed the asset allocations indicated in this Policy from time to time, as the result of additional resources and changes in financial markets. In these instances, the Chief Financial Officer and City Treasurer, with the assistance of the Investment Consultant, shall rebalance the portfolios, at a time and manner that they deem appropriate.

X. Designation of Capital Reserves

The City Council designates the following Capital Reserves (as defined in Section III) for investments permitted in N.C.G.S. 147-69.2 with the restrictions and requirements of this Policy.

Capital Reserve Funds	Designation Percentage
Water and Sewer	50%
Solid Waste Disposal	50
Stormwater Management	50
Equipment Leasing	30

XI. Other Requirements

Distribution of Return on Investments

North Carolina General Statute § 159-30(e) provides for return on investments to be distributed to funds whose assets earned the investment income. Cash of several funds may be combined for investment, if not otherwise prohibited by law or action of the City Council, and the investment income earned shall be prorated to the various funds on the basis of the average balances invested or some other sound accounting principle. The City Council has further determined that the investment income of the General Fund, Capital Projects Fund, and certain other funds shall be credited to the Debt Service Fund and used to service outstanding debt.

Accounting and Reporting on Investments

The City Treasurer and employees designated by the Chief Financial Officer shall monitor the accounting of all investment transactions on a daily basis. The City Treasurer shall also receive and reconcile investment reports from the asset custodians at least monthly. The City Treasurer shall include information on investments in the Comprehensive Annual Financial Report of the City.

Performance Standards

The City investment strategy is considered active and appropriate benchmark indices for each asset class will be used for comparative purposes and to measure the performance of the various portfolios. The Investment Consultants shall prepare and present performance information of each Investment Manager at least quarterly. The goal of the City is to have the Investment Managers rank in the top quartile of similar Investment Managers and public funds as measured over a full market cycle.

Training and Education

The City Council recognizes that the conduct of investment activities is time consuming and requires specialized skills. It is the Policy of the City to provide periodic training for investment personnel through courses and seminars offered by the Government Finance Officers Association, North Carolina Local Government Investment Association, and other nationally recognized organizations.

Effective Date of Revised Investment Policy

This Investment Policy, updated April 2013, shall be effective on the date of approval by the City Council of the City of Winston-Salem, or upon the date of subsequent amendments.

Table 1

Equity Allocation Maximums

Fund Name	Maximum Percentage
Capital Reserve Funds⁽¹⁾	
Capital Projects	0%
Water and Sewer	35
Solid Waste Disposal	35
Stormwater Management	35
Fairgrounds	0
Equipment Leasing	20
Retirement, Employee Benefits, Risk Reserves, and Perpetual Care Funds	
Employee Benefits	25%
Police Officers Retirement	80
Separation Allowance	80
Other Post-Employment Benefits	80
Cemetery Perpetual Care	80
Reserve for Debt Retirement	-

⁽¹⁾ Equity maximums are 70% of the designated capital reserves in Section X.

FUNDING POLICY

WINSTON-SALEM POLICE OFFICERS' RETIREMENT SYSTEM

This Policy applies to the Winston-Salem Police Officers' Retirement System (System), which is under the direct control of the City Council of the City of Winston-Salem, North Carolina ("City").

I. Funding Policy

The City Council of the City establishes this Policy for the long-term funding and budgeting of the System's oversight, and related fiduciary funds in accordance with all applicable North Carolina General Statutes. The overall objective of this Policy is to assure stable employer contributions and adequate overall funding levels with the guidelines stated herein. This policy shall be subject to periodic review.

II. Annual Required Contribution

The City will obtain actuarial studies each year from a certified actuarial firm that calculates the Annual Required Contribution (the "ARC") for the System. It is the policy of the City to annually budget and contribute the full amount of the ARC from the most recent actuarial study. All budgeted funding provided for the ARC will be contributed annually to an irrevocable trust account held by the fiduciary Trustee.

The ARC is determined to include 1) the Normal Cost and 2) the amortization of any Unfunded Actuarial Liability (UAL) over a closed 25 year period. The closed amortization period will provide that the UAL be fully paid by the end of the period. Participation in the System has been closed as of December 31, 2013, to new sworn police officers.

Should assets in the System exceed the Actuarial Liability for benefits, the City shall contribute each year no less than the Normal Cost until all beneficiaries are deceased. Any residual amounts in the fund after all participant benefits have been paid revert to the City.

III. Actuarial Cost Method

The actuarial cost method for actuarial studies performed as of January 1, 2014, and all subsequent annual studies, will be Entry Age Normal

IV. Asset Smoothing

In order to reduce the impact of short-term investment volatility, the ARC calculations will be made using a seven year asset smoothing methodology.

V. Investment Return Assumptions

The investment return assumption for actuarial studies performed beginning January 1, 2014 will be 7.25% and is subject to periodic review with the System's actuary.

VI. Cost of Living Adjustments

Cost of Living Adjustments (COLA's) will not be granted without an actuarial study that shows the impact on the System liabilities, costs, and employer contributions.

COLA's must be approved by City Council after a recommendation by the Winston-Salem Police Officers' Retirement Commission. The City Council shall approve a separate policy for the provision of COLA's for System participants.

VII. Contribution Reserve Fund

In the event that assets in the System trust fund reach 100 % of the actuarial liability for plan benefits (fully-funded), then subsequent employer contributions will be deposited to a Contribution Reserve Fund (CRF) established as an irrevocable trust account within the Master Trust. If in any subsequent year, the assets in the System trust fund fall below 100% of the actuarial liability for plan benefits, then the City may draw upon funds in the CRF to maintain or increase the funding level of the System up to 100%.

VIII. Maintenance of Funding Effort after the Issuance of Bonds to Fund the System

In order to preserve System funding and financial stability for the long term, City may consider the issuance of bonds to supplement the funding level of the System. Bonds will not be issued to fund the City's ARC or for any cashflow needs of the System.

If bonds are issued and in consideration of the underlying objectives of this policy, the City will continue to contribute to the System at least the same level of employer contribution as required prior to the issuance of bonds, reduced only by the funding streams necessary to repay the bonds until the System reaches 100% fully funded status. After 100% fully funded status has been reached and any bonds issued for the System have been retired or defeased, the City may reduce its funding levels to Normal Cost.

Effective Date of Funding Policy

This Funding Policy shall be effective on the date of adoption by the City Council or upon the date of subsequent amendments.