

CITY OF LEXINGTON

BALANCED BUDGET POLICY

Purpose

The operating budget is the City's comprehensive one-year financial plan which provides for the desired level of city services as defined by the City's priorities. A budget will be developed every year using a "budgeting by priorities" process.

The goals of the Budgeting by Priorities process are:

1. Align the budget with citizen priorities,
2. Measure progress towards priorities,
3. Get the best value for each tax dollar, and
4. Build regional cooperation

The City shall define a "balanced budget" as a budget where ongoing financing sources are sufficient to support ongoing operating expenditures. A budget may temporarily use fund balance to offset a temporary reduction in funding sources, however, fund balance shall not be used to fund ongoing expenses without a sustainable budget adjustment.

The City's fiscal year is the calendar year. The annual budget process begins in June each year for the following years' budget. Budget worksheets are prepared on a departmental basis providing the City's staff with the opportunity to review the current operations, review the department's capital needs and prepare its request for the following years' annual operating and capital budgets.

General Guidelines

The Operating Budget is the annual financial plan for funding the costs of City services and programs. Operating budgets are approved for the City's activities accounted for in the General, Special Revenue, Debt Service and Capital Funds. Enterprise operations are budgeted in separate Enterprise Funds and are intended to be financed by user charges, rentals or merchandise sales.

- The City Administrator or Designee shall submit a balanced budget in which estimated expenditures shall not exceed the total of the estimated revenues.
- The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' budgets.
- The operating budget will describe the major goals to be achieved and the services and programs to be delivered for the level of funding provided.

- The City Administrator or Designee will coordinate the development of the capital improvement budget with the development of the operating budget. Operating costs associated with new capital improvements will be projected and included in future operating budget forecasts.
- The City will develop an equipment and infrastructure replacement and maintenance needs analysis for the life cycle and will update this projection every year (consistent with the annual budget process). The budget will provide for adequate maintenance of the capital plant and equipment, and for their orderly replacement.
- The impact on the operating budget from any new programs or activities being proposed should be minimized by providing funding with newly created revenues whenever possible.
- The activities accounted for in the City's Special Revenue, Debt Service and Capital Funds shall be included in the annual budget process to determine the total general property tax levy requirements of the City.
- Administrative and operational efficiencies should be maximized before pursuing new tax revenue.
- Reserves and one time revenues should be used first to invest in capital outlay items that could reduce long range operating costs and, thereafter, finance transition expenses.
- New services should not be added nor existing services expanded unless they are highly valued by the community and there is a willingness to pay for them.
- The City will utilize beginning fund balances and other one-time revenues only for onetime/non-recurring expenditures.
- Enterprise Funds are used to account for special services intended to be paid by those benefitting from the services. The Enterprise activities of the City include water, waste water, and storm water services where a charge for service is an equitable method of financing the service provided.
- The City also operates a municipal off-sale liquor operation and a commercial building that are intended to be self-supporting and provide revenues to support the general government operations.
- In addition to operating expenses, Enterprise Funds shall be budgeted to provide for replacement costs of property, plant, and equipment, if appropriate, when establishing rates and charges for services.

- The budget process will be established by the City Administrator or Designee that will meet the statutory timeline established to approve a preliminary general property tax levy by September 15 and a final tax levy by December 31.
- The budget process will provide for sufficient time to include staff input into the budget process and review and approval by the City Council.
- The City Administrator will insure that a budgetary control system is in place to adhere to the adopted budget.
- The City Council may amend or supplement the budget after its original adoption. Budget amendments that increase the expenditure budgets must be reviewed and approved by the City Council.
- The City's department heads may make transfers of appropriations within their departmental budget. City Council approval is not required.
- The Accounting Coordinator will provide regular monthly reports comparing actual revenues and expenditures to the budgeted amounts. The regular monitoring of financial performance provides opportunities to make mid-course corrections as warranted.

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CITY OF LEXINGTON

DEBT MANAGEMENT POLICY

Purpose

The use of borrowing and debt is an important and flexible revenue source available to the City. Debt is a mechanism which allows capital improvements to proceed when needed, in advance of when it would otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies. The issuance of long-term debt will be limited to capital improvements or projects that cannot be financed from current revenues.

Debt management is an integral part of the financial management policies of the City of Lexington. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by the City must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance the City's credit rating.

A goal of debt management is to stabilize the overall debt burden and future tax levy requirements to ensure that issued debt can be repaid and prevent default on any municipal debt. A debt level which is too high places a financial burden on taxpayers and can create problems for the City's economy as a whole.

General Guidelines

Wise and prudent use of debt may provide fiscal and service advantages for the City. Overuse of debt places a burden on the fiscal resources of the City and its taxpayers. The following guidelines provide a framework and limit on debt utilization:

1. The City will weigh the benefits and costs of long-term borrowing for planned capital improvements and short-term debt for capital outlay.
2. The City will not use long-term debt to finance current operations under any circumstances.
3. When considering financing of capital expenditures, the City may consider paying cash for capital financing as well as debt financing.
4. The City will pay back debt within a period not to exceed the expected useful life of the projects.
5. The City will maintain good communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure in every financial report and bond prospectus.
6. The City, with the assistance of its financial advisor, will track and identify opportunities for restructuring or refinancing debt.

7. When feasible, the City will use refunding mechanisms to reduce interest cost and evaluate the use of debt reserves to lower overall annual debt service. Prior to utilizing investment funds to pay off any City related debt, it is a requirement that there is prior Council approval.
8. The City's debt management goals are to:
 - a. maintain the level of annual debt service that finances and maintains infrastructure needs of the City while carefully considering the ability of the property owners of the City to finance such needs.
 - b. quantify the impact of potential future debt on the debt service levy and, with the assistance of the City's financial advisor, determine the benefits of the infrastructure improvements financed properly extends beyond the repayment period of the debt issued.
9. The City will comply with all federal and state laws and regulations and the bond covenants of the issuing resolutions.

During the annual budget process, the Council may review whether a debt study should be prepared to provide information about the City's current debt structure and changes in current and future debt levy requirements. In deciding whether to include a Debt Study, the Council will consider such factors as how long it has been since the last Debt Study, if there have been material changes to the CIP, or if a large amount of debt is expected in the near future.

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CITY OF LEXINGTON

FUND BALANCE / RESERVE POLICY

I. INTRODUCTION

The City of Lexington seeks to have a good balance in its General Fund in order to have sufficient reserves for cash flows to pay operating expenditures when due while the City awaits receipt of its major revenues. The City receives a majority of its revenues from property tax collections and state aids, which are received twice each year.

The purpose of this policy is to also establish specific guidelines the City of Lexington will use to classify fund balances into a categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

The City acknowledges the State Auditor's recommendation that local governments establish a formal policy on the level of fund balance that should be maintained in the General Fund.

II. GOAL

The goal of the City Council in establishing a General Fund Balance Policy is to ensure the long-term economic stability of the organization by providing sufficient funds for cash flow purposes, to accumulate savings for projects, and to have reserves for unexpected shortfalls or emergencies, while providing a specific plan for increasing or decreasing the level of fund balance as needed.

III. OBJECTIVE

- A. General Fund. The objective of the City Council in meeting this goal is to ensure that the General Fund Balance should be monitored annually to remain within 35-50% of next year's budget, and the methods are identified by this policy to increase or decrease the fund balance to achieve this objective. Nearly 90% of the General Fund revenue is received in two payments, one in July and the other in December. Therefore, it is the Council's desire to maintain a fund balance of 45% of the subsequent years budgeted expenditures.

If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level of 45%, as noted above, the replenishment will be funded by Property Taxes within 1-3 years.

If the unrestricted fund balance exceed the minimum targeted fund balance, the excess may be used to finance new expenditures with emphasis placed on one-time uses.

- B. Special Revenue Funds. Special revenue funds by their nature are funds used for specific purposes, and by definition, the corresponding fund balance will be used to solely support that purpose. Fund balances in special revenue funds will be monitored to stay consistent with the need and use of the specific purpose of that fund.
- C. Debt Service Funds. Debt service fund activities are generally dictated by bond indenture provisions. Fund balances in debt service funds will be monitored to determine adequacy of cash flows to pay debt service principal and interest when due. An annual debt management study will be prepared and reviewed by Council.
- D. Capital Projects Funds. Fund balances in capital projects funds will be monitored to determine adequacy of financing mechanisms to pay project expenditures when due.
- E. Enterprise Funds. Enterprise fund net assets consist of assets less liabilities and may include large amounts of capital assets and/or long-term debt. Particularly in the City's utility funds, a majority of capital assets have not been paid for by the enterprise fund, but have been contributed from outside sources (other City funds, private development). It is a goal of the enterprise funds to cover the cost of operations, including depreciation on capital assets, so as to maintain a financially healthy enterprise. Depreciation on capital assets contributed by outside sources for the utility funds may pose difficulties in achieving this surplus. Enterprise funds will be monitored to determine the efficiency and effectiveness of operations, while considering financing plans for installation and replacement of capital asset infrastructure.

IV. CLASSIFICATION OF FUND BALANCE/PROCEDURES

A. Nonspendable:

This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.

B. Restricted:

Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

C. Committed:

Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.

The City's highest level of decision making authority (City Council) will annually or as deemed necessary commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.

To remove the constraint on specified use of committed resources the City Council shall pass a resolution

D. Assigned:

Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.

The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Administrator or designee.

E. Unassigned:

Unassigned fund balance represents the residual classification for the General fund. Includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.

V. MONITORING AND REPORTING

The City Administrator or designee shall annually prepare the status of fund balances in relation to this policy and present to the City Council in conjunction with the development of the annual budget. The City Council shall annually review the adequacy of all fund balance reserves. The City Council, through judicious use of reserves, may use the fund balances to maintain service levels on a short-term basis.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1.) committed 2.) assigned and 3.) unassigned.

A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General fund.

VI. REVIEW OF POLICY:

The City Administrator or designee will keep on file comments and complaints received regarding this policy. The policy will be reviewed periodically. Any review will consider comments and complaints since the last review and any other factors affecting the policy or its implementation.

VII. MODIFICATION OF POLICY:

The Council may modify or clarify this policy at any time. Where the Council has delegated responsibility or authority to any city employee or official for development or implementation of any portion of this policy, that employee or official shall have full authority to modify that portion of the policy at any time.

VIII. EFFECTIVE DATE OF POLICY:

Modifications of the policy shall be effective on the date said modifications are approved by City Council or the date the city employee or official (with authority granted by the City Council) has approved the policy modification or change.

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CITY OF LEXINGTON

PURCHASING POLICY

The Purchasing Policy has been developed to ensure proper accountability of the public funds entrusted to the City of Lexington and to maintain controls necessary for the City to operate efficiently. The Purchasing Policy applies to all employees and officials of the City and relates to the procurement of services and/or goods, unless specifically exempted in this policy. Failure to comply with the policies and guidelines could result in disciplinary action and/or personal financial liability.

Purpose

It is the purpose of this policy to:

- Clarify the system of purchasing contractual services, material, and equipment for the City;
- Determine the levels of approval necessary before purchasing contractual services (except professional services), material, and equipment for the City;
- Provide public confidence in the procedures used in public purchasing;
- Ensure fair treatment of all persons who deal with the City procurement system;
- Provide economy and value in City purchasing activities;
- Foster competition within the free enterprise system where possible and appropriate;
- Provide safeguards for the assurance of a purchasing system of quality and integrity.

General Guidelines

~~The City Administrator or Designee is hereby granted the authority to make all budgeted purchases in accordance with the provisions of this policy for all items not specifically requiring City Council approval. For items requiring City Council approval, the City Administrator or Designee is authorized to solicit bids or quotes.~~

The City Administrator is hereby designated the Purchasing Agent, hereinafter named "Agent," for the City. The Agent may delegate authority to any designee for the preparation of specifications, the obtaining of quotations as may be required, and the purchase of items as specified in this policy.

- The terms of this policy are applicable to the purchase of all budgeted goods and non-professional services.
- City departments shall adhere to this purchasing policy.
- The Agent is hereby granted the authority to make all budgeted purchases in accordance with the provisions of this policy for all items not specifically requiring Common Council approval. For items requiring Council approval, the Agent is authorized to solicit bids or quotes for Council approval.

Purchases Requiring Council Approval

Prior approval of the City Council is to be sought for all purchases in excess of one thousand dollars (\$1,000.00), except for the following:

- Professional services such as legal, engineering, auditing that are rendered under an approved contract for such services.
- Utility expenditures such as electricity, natural gas and telephone services for all city owned properties.
- Payroll and related expenses such as employee medical premiums, pension payments and mandatory State and Federal withholding.
- Routine expenditures such as insurance premiums and bond payments which received prior Council approval and authorization through the budgetary process.
- Public improvement projects ordered by the City Council such as street paving, seal coating, sewer, water and storm sewer.
- Inventory purchases for the Off-Sale Liquor Store.

Petty Cash Disbursements

Items purchased having a value that is less than twenty dollars (\$20.00) may be paid for from the Petty Cash Fund. The Petty Cash Fund shall be maintained at City Hall. All reasonable effort shall be made to maintain the petty cash fund cash on hand at less than two hundred dollars (\$200.00). A log of petty cash fund transactions shall be maintained by City Hall.

Purchases Up To \$1,000.00

The City Administrator or Designee is authorized to purchase materials, equipment and services having a value up to one thousand dollars (\$1,000.00) without prior approval, providing there is funding in the budget for said purchases. Generally, these types of purchases are for services, materials, supplies and equipment needed for day-to-day operations. For purchases over three hundred dollars (\$300.00), quotations shall be obtained from at least two (2) vendors. These quotations may be written or verbal, but, if they are verbal, the details of the quotations shall be recorded on a sheet attached to the purchase.

Purchases Over \$1,000.00 and Up To \$10,000.00

Written quotations shall be obtained from at least two (2) vendors for purchases having a value over one thousand dollars (\$1,000.00) and up to ten thousand dollars (\$10,000.00), and those quotations shall be presented to the City Council for approval. Whenever feasible the purchase shall be made from the lowest bidder offering quality merchandise.

Purchases Over \$10,000.00

All materials, equipment and services costing more than ten thousand dollars (\$10,000.00) must be purchased on a formal advertised bid basis. All purchases shall be let to the lowest responsible bidder, and the following procedure shall be followed:

1. The City Administrator or Designee shall be provided with notification concerning

the requested expenditure of funds for the purchase of an item(s) with a cost greater than ten thousand dollars (\$10,000.00), including supporting narrative as to whether or not the purchase is a budgeted item, and the intended source and availability of funds.

2. If the requested purchase is a budgeted item, Council approval prior to bid letting is unnecessary.
3. If it is a non-budgeted item, the request shall be placed on the agenda for the next council workshop for discussion. If the Council recommends the purchase, the matter shall likewise be placed on the agenda for the next Council meeting.
4. If the Council authorizes bids for the purchase, the City Administrator or Designee shall see that appropriate notices are published, and distribute plans and specifications to interested persons/companies.
5. Bids shall be sealed, and held in the Administrative Office of the City of Lexington prior to the formal bid opening.
6. When it is time for the formal bid opening, the City Administrator or Designee shall open all sealed bids which have been submitted for consideration, and read each and every one aloud. The City Administrator or Designee shall then see that a report is made to the Council concerning the bids received. The report shall contain his/her recommendation concerning the bid to be accepted, and, if a bid other than the lowest bid is recommended, the report shall state the reasons for such recommendation.
7. If the Council approves the report, a motion authorizing the acceptance of the bid shall be made.
8. The Council may, in times of emergency or when otherwise impractical, waive the provisions of this section.
9. Professional services are excluded from the requirements of this section, where quality of service as well as fee will determine the acceptance of the proposals.

Non-Budgeted Items

It is the assumptions of this purchasing policy that all requested expenditures have been provided for in the current budget. However, purchases over five hundred dollars (\$500.00) which have not been provided for in the current budget will require Council approval. The City Administrator, upon receipt of the non-budgeted expenditure request, shall place the request on the next agenda for Council consideration. If the Council approves the non-budgeted expenditure, the purchase may be processed.

Emergency Purchases

In an emergency situation, or when time is of the essence, the City Administrator, or the Mayor in the absence of the City Administrator, is authorized to allow the purchase of any item or combination of items not included in the budget or not previously authorized by the City Council in an amount exceeding \$1,000 provided that Council approval is sought at the next regular scheduled City Council meeting. Such purchase may not cause a budget line item to be exceeded.

Local Merchants and Businesses

Taking price and service into account, the City shall give due consideration to local

merchants and businesses.

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