

# Financial Policies



The Finance Department developed the following financial policies to help City Council and management view their approach to financial management from an overall, long-range vantage point.

Unlike private entities, there are no "bottom line" profit figures that assesses the financial performance of the City, nor are there any authoritative standards by which City officials can judge themselves. Instead, City Council and management work together to set goals and objectives that measure the performance and effectiveness of municipal programs and services.

Financial policies can be used to establish similar goals and targets for the City's financial operations, so that the City Council and City officials can monitor how well the City is performing. Formal financial policies provide for a consistent approach to fiscal strategies and set forth guidelines to measure financial performance and future budgetary programs.

The following pages contain policy frameworks in the following areas:

- (1) General Financial Goals
- (2) Operating Management
- (3) Revenues
- (4) Budget and Expenditures
- (5) Capital Management
- (6) Debt Management
- (7) Reserves
- (8) Financial Reporting

## General Financial Goals

- To ensure delivery of an adequate level of municipal services by assuring reliance on ongoing resources and by maintaining an adequate financial base.
- To ensure that the City is in a position to respond to changes in the economy or new service requirements without an undue amount of financial stress.
- To maintain a good credit rating in the financial community, and assure taxpayers that the City is well managed financially and maintained in sound fiscal condition.
- To adhere to the highest accounting and management policies as set by the Government Finance Officers' Association, the Governmental Accounting Standards Board, and other professional standards for financial reporting and budgeting.

## Operating Management Policies

**Long-Term Financial Health** - All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements.



**Forecasts** - Balanced revenue and expenditure forecasts will be prepared to examine the City's ability to absorb operating costs due to changes in the economy, service demands, and capital improvements. The forecast will be updated quarterly, focus on a three-year horizon, but include a five-year outlook.

**Alternatives to Current Service Delivery** - Alternative means of service delivery will be evaluated to ensure that quality services are provided to our citizens at the most competitive and economical cost. Departments, in cooperation with the City Manager, will identify all activities that could be provided by another source and review options/alternatives to current service delivery. The review of service delivery alternatives and the need for the service will be performed annually or on an "opportunity" basis.

**Cash and Investments** - Cash and Investment programs will be maintained in accordance with the City Charter and the adopted investment policy and will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.

### Revenue Policies

**Dedication of Revenues** - Revenues will not be dedicated for specific purposes, unless required by law or generally accepted accounting practices (GAAP). All non-restricted revenues will be deposited in the General Fund and appropriated by the budget process.

**Financial Stability** - Current revenues will fund current expenditures and a diversified and stable revenue system will be developed to protect programs from short-term fluctuations in any single revenue source.

**Utility and Golf User Fees** - Enterprise (Water, Sewer, and Golf Course) user fees and charges will be examined on a cyclical basis to ensure

that they recover all direct and indirect costs of service and be approved by the City Council. Any unfavorable balances in cost recovery will be highlighted in budget documents. Rate adjustments for enterprise operations will be based on two to three-year fund plans.

**Non-Enterprise Charges for Services** - All non-enterprise user fees and charges will be examined on a cyclical basis to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council.

**Grants** - Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process.

**Credit and Collections** - The City will follow an aggressive and consistent policy of collecting revenues to the limit of our ability. Collection policy goal will be for all adjusted uncollectible accounts to be no more than .5 of 1% of the total City revenue being adjusted for bad debts annually.

### Operating Budget and Expenditure Policies

**Budget Augmentations** - The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.

Appropriations requested after the original budget is adopted will be approved only after consideration of the elasticity of revenues. Such appropriations will be approved by the City Manager.



**Budget Development** - Budget development will use strategic multi-year fiscal planning, conservative revenue forecasts, and modified zero-base expenditure analysis that requires every program to be justified annually in terms of meeting intended objectives. The process will include a diligent review of programs by staff, management and City Council.

Addition of personnel will only be requested to meet program initiatives and policy directives, after service needs have been thoroughly examined and it is determined that additional staffing will result in increased revenue or enhanced operating efficiencies or service levels. To the extent feasible, personnel cost reductions will be achieved through attrition.

**Current Funding Basis** - Current operating expenditures will be paid from current revenues and fund balance carried forward from the prior year, after reserve requirements are met. The City will avoid budgetary and accounting practices that balance the current budget at the expense of future budgets.

**Maintenance and Replacement Funding** - A multi-year maintenance and replacement schedule will be developed and updated based on the City's projections of its future replacement and maintenance needs. The operating budget will provide for adequate maintenance and future replacement of the City's capital, plant and equipment.

**Capital Management Policies**

**Capital Improvement Plan Development** - A five-year Capital Improvement Plan (CIP) will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction that results in a capitalized asset costing more than \$25,000 and having a useful (depreciable life) of two years or more.

The CIP will include, in addition to current operating maintenance expenditures, adequate

funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.

Proposed capital projects will be reviewed and prioritized by a cross-departmental team regarding accurate costing (design, capital, and operating) and overall consistency with the City's goals and objectives. Financing sources will then be identified for the highest-ranking projects.

Future operating, maintenance and replacement costs associated with new capital improvements will be forecast, matched to available revenue sources and included in the Operating Budget.

Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.

Pay-as-you-go Capital Improvement Plan financing should account for a minimum of 25% of all capital improvement projects for each five-year planning period. Pay-as-you-go financing is defined as all sources of revenue other than City debt issuance, i.e., fund balance contributions, developer contributions, grants, endowments, etc.

---

*The City will avoid budgetary and accounting practices that balance the current budget at the expense of future budgets.*

---

**Debt Management Policies**

**Improved Bond Ratings** - The City will seek to maintain and, if possible, improve our current bond rating in order to minimize borrowing costs and preserve access to credit.

**Debt Capacity** - An analysis showing how the new issue combined with current debt impacts the



City's debt capacity and conformance with City debt policies will accompany every future bond issue proposal.

**General Obligation Debt** - General Obligation debt, which is supported by property tax revenues and grows in proportion to the City's assessed valuation and/or property tax rate increases, will be utilized as authorized by voters. Other types of debt may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges).

General Obligation debt issuances will be managed on an annual basis to match funds to Capital Improvement Plan cash flow requirements while being sensitive to the property tax burden on citizens.

**Local Improvement District (LID) Bonds** - It is intended that LID bonds will be primarily issued for neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, streetlights, and drainage. LID bonds will be utilized only when it is expected that they will be issued for their full term.

**Interest on Bond Proceeds** - Bond interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan, as approved by City Council, or be applied to debt service payment on the bonds issued for construction.

**Debt Coverage Ratios** - Utility rates will be set, as a minimum, to ensure the ratio of revenue to debt service meets bond ordinance requirements. The City goal will be to maintain a minimum ratio of utility revenue to debt service of 2.0 or greater, to ensure debt coverage in times of revenue fluctuations attributable to weather or other causes, and to ensure a balanced pay-as-you-go Capital Improvement Plan.

**Reserve Policies**

**Undesignated and Designated Fund Balance** - All fund designations and reserves will be evaluated annually for long-term adequacy and

use requirements in conjunction with development of the City's five-year forecast.

**General Fund Undesignated Fund Balance** - General Fund Reserves of 18.0% of annual General Fund operating expenditures will be maintained for unforeseen emergencies or catastrophic impacts to the City. Reserve funds in excess of 18.0 % may be used for non-recurring emergency capital expenditures or dedicated to the Capital Improvement Plan. The following criteria must be met to qualify any portion of the General Fund surplus for these purposes:

- There are surplus balances remaining after all reserves and fund allocations are made.
- An analysis has occurred assuring that the City has an adequate level of short and long-term resources to support the proposed use of surplus balances.
- The funds are specifically appropriated by the City Council.

**Utility Reserves** - Water and Sewer Replacement Reserve will be maintained to ensure adequate funding for infrastructure deterioration repair. A minimum requirement of 2% of all tangible assets of the system will be maintained per bond ordinance requirements.

Water and Sewer Unrestricted Fund Balance goal will be 25 % of annual expenditure requirements for unforeseen emergencies or catastrophic impacts to the City's water and sewer enterprise operations.

**Self-Insurance Reserves** - Self-Insurance Reserves will be maintained at a level, which, together with purchased insurance policies, will adequately indemnify the City's property, liability, workers compensation risk and compensated absences liability. A qualified actuarial firm shall be retained on an annual basis in order to recommend appropriate funding levels, which will be approved by Council.



## Financial Reporting Policies

**Accounting and Reporting Methods** - The City's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

**Comprehensive Annual Financial Report (CAFR)** - The City's CAFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference. The audit opinion will be included with the City's CAFR.

**Distinguished Budget Awards Program** - The City's Budget will be submitted to the GFOA Distinguished Budget Presentation Program beginning with Fiscal 2005. The budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units and as a communications device for all significant budgetary issues, trends and resource choices.

**Internal Controls** - Financial systems will maintain internal controls to monitor revenues, expenditures, and program performance on an ongoing basis.

**Fiscal Monitoring** - Monthly financial reports will present actual expenditures vs. budget on a monthly and cumulative basis. Major revenue sources will be monitored on a monthly basis, noting the status of each revenue source as compared to budget

A quarterly report will be presented to City management – indicating the status of actual revenues and expenditures as compared to the budget, on a quarterly and cumulative basis, and will note any actions necessary to maintain the City's financial position.

