Workshop - Financial Management Policy

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Background

Investment Policy
- First adopted in October 1995
- Approved annually in compliance with the PFIA
- Most recent amendment in September 2024
- Received a Certificate of Distinction from GTOT

Financial Management Policy
- First adopted in March 2008
- Added Investment Policy as Appendix A
- Most recent amendment in September 2021
- Reviewed periodically to align best practices

Purpose of Financial Management Policies

Guides decision making

Supports transparency and creditworthiness

Promotes stability, continuity, and long-term thinking

Ensures compliance and the legal use of resources

What changed?

- Refined language for clarity and readability
- Aligned policies with current financial processes and practices
- Strengthened compliance with legal and regulatory requirements
- Incorporated targeted policy updates to improve efficiency and oversight
- Added comprehensive Debt Management Policy and Fund Balance/Reserves Policy as appendices

Section I. Purpose Statement

B. Objectives

- ➢To guide the City Council and policy decisions
- ➢Employ balanced and fair revenue policies
- ➢Maintain financial capacity
- ➢Maintain sufficient reserves
- ➢Promote sound financial management
- ➢To protect the City's credit rating
- ➢To ensure the legal use of financial resources

Section II. Accounting, Auditing, and Financial Reporting

B. Encumbrance Accounting

- New section added to define encumbrance accounting and how it is applied by the City

G. Internal Controls Monitoring (previously Internal Auditing)

- Renamed the section to better reflect the City's in-house practices
- Assigned operational responsibility to the Finance Director from the City Manager

Section II. Accounting, Auditing, and Financial Reporting (cont.)

H. Internal Financial Reporting

- Added a requirement to provide the City Council with quarterly financial reports

I. Annual Financial Disclosure

- Added this section to document the required disclosures that we are already complying with

J. Compliance With Council Policy Statements

- Added this section to balance accountability with practical flexibility

Section IV. Operating Budget

B. Basis

- ➢Added to explain the basis of budgeting the City uses

H. Adopted and Amended Budget

- ➢Added to document the legal requirement for adopting and amending the budget

Section IV. Operating Budget (cont.)

I. Budget Administration

- Added to clarify expenditure compliance and defines City Manager's role in administering the adopted budget

J. Long-Term Financial Planning

- Added to recognize the City's new multi-year financial planning process to better link long-term goals with the annual budget

Section V. Fund Balance/Reserve Policy

- Streamlined the Financial Management Policy to provide a high-level framework without duplicating detail
- Created a separate comprehensive Fund Balance/Reserve Policy (Appendix F) that establishes minimum levels and practices
- Aligns with best practices in municipal finance ensuring financial stability, flexibility, and long-term sustainability

Section VI. Capital Expenditures Program

F. Programmatic Replacement of Capital Assets

- Formalizes the City's existing capital replacement practice in policy for consistency and transparency

Section VII. Revenue Management

M. Write-Off of Uncollectible Receivables

- Establishes clear criteria for writing off uncollectible receivables to ensure transparency, compliance with state law, and accurate financial reporting

Section VIII. Expenditure Control

A. Appropriations

- Added definitions for Budget Amendment and Budget Transfer and clarified authority of each.

B. Purchases

- Raises the threshold for City Manager approval to $100k aligning with the new competitive bidding threshold
- Reinforces best value purchasing and compliance with all applicable laws

Section IX. Asset Management

E. Surplus Property and Asset Disposal

- Incorporated the Council-approved Surplus Property Policy into the Financial Management Policy to ensure consistency, compliance, and transparency in asset disposal

Section X. Financial Condition

A. Operating Deficits

- Provides flexibility while maintaining the principle of balanced operations
- Recognizes that limited use of short-term tools may be necessary in special circumstances

Section XI. Debt Management

- Streamlined the Financial Management Policy to provide a high-level framework without duplicating detail
- Created a separate comprehensive Debt Management Policy (Appendix E) to house detailed standards, procedures, and financing considerations
- Aligns with best practices in municipal finance and strengthens the City's position with rating agencies and external stakeholders

Section XIII. Grant Financial Management

- Expanded the policy to cover solicitation, evaluation, and acceptance
- Ensures alignment with Council priorities, cost-beneficial funding, and sustainability
- Adds safeguards with City Manager approval and Council acceptance for transparency and compliance

Section XIV. Donations

- Added this section to establish clear standards for accepting donations to ensure alignment with City goals and public purpose
- Protects the City by allowing donations to be declined when not in the City's best interest or when compliance issues arise
- Clarifies authority for acceptance, with Council approval required for larger donations and delegated authority to the City Manager up to $1,000

Debt Management Policy

Purpose and Objectives

- Establishes a clear framework for managing all City debt
- Provides Council and staff with consistent standards for evaluating financing options
- Ensures debt decisions align with the City's long-term financial strategy
- Promotes disciplined financial management and responsible borrowing practices

Key Guidelines

- Applies to all City debt, regardless of funding source
- Debt financing limited to capital assets and infrastructure improvements
- Pay-as-you-go financing favored when resources are sufficient
- Establishes limits to keep debt affordable and within legal limits
- Debt structured to minimize property tax impacts and avoid balloon payments
- Maintain minimum debt service coverage ratio for self-supported debt

Benefits

- Preserves the City's long-term financial stability
- Protects and strengthens bond ratings to reduce borrowing costs
- Provides transparency and consistency in debt decisions
- Encourages conservative revenue projections to ensure repayment
- Supports cost savings through refunding and cash defeasance opportunities
- Reinforces accountability through annual reporting and policy review

Fund Balance/Reserves Policy

Governmental Accounting Standards Board (GASB)

- Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions
- Establishes fund balance classifications for governmental funds
- Does not affect enterprise funds (utility)

Current Fund Balance Classifications

Nonspendable	• Prepaid expenses for a future period
Restricted	• Court • Public Safety restricted balances
Assigned	• Tree Mitigation Fund • Operating reserve
Unassigned	• Not assigned for a specific purpose

Reserve Policy

Objectives

- Set minimum and target levels
- Define the purpose of reserves
- Differentiate classifications
- Provide guidance on excess reserves
- Enhance transparency
- Support creditworthiness
- Guide budget and tax rate decisions

Possible uses

- Contingency purposes or emergencies
- Reducing debt issuance
- One-time capital projects or infrastructure needs
- Capital replacement funds
- Strategic initiatives
- Tax rate stabilization

Current Reserves – General Fund

- Capital Replacement Fund – Savings equal to 110% of the asset's cost, set aside incrementally over its useful life, to ensure full replacement funding.
- Strategic and Capital Projects Fund – Project appropriations roll forward annually until project completion. Any project savings remain in the fund for future Council-approved projects.
- Operating Reserve – Maintain a balance equal to six (6) months of operating expenditures.

Recommendation – General Fund

<u>Emergency Reserve</u>

- Minimum four (4) months of operating expenditures
- More restrictive uses such as emergency situations
- Includes guidelines for replenishment

<u>Budget Stabilization Reserve</u>

- Minimum two (2) months of operating expenditures
- Less restrictive; can be used for revenue shortfalls, to minimize tax impacts, etc.
- Includes guidelines for replenishment

Current Reserves – Utility Fund

- Capital Replacement Fund – Savings equal to 110% of the asset's cost, set aside incrementally over its useful life, to ensure full replacement funding.
- Capital Projects Reserve – Project appropriations roll forward annually until project completion. Any project savings remain in the fund for future Council-approved projects.
- Infrastructure Improvements Reserve – Holds collected impact fees until they are expended on capacity-related improvements, in accordance with state law.

Current Reserves – Utility Fund (cont.)

- Debt Service Reserve – Reserves equal to or exceeding the requirements dictated by utility debt ordinances. (Usually equal to the annual debt payment)
- Operating Reserve – A reserve goal of at least one (1) year of operating expense.

Recommendation – Utility Fund

- Emergency reserve minimum six (6) months of operating expenditures
- Includes uses and guidelines for replenishment