

# General Financial Policies

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## **Objective:**

*To outline the method and principles for allocation Administrative Charges; establishing the parameters for the Medical and Retirement Program; Fund Organization; Cost Recovery and Fee Setting; and Capital Improvement Program.*

## **Applicability:**

*This policy applies to all City funds. It does not apply to URA, DDA, PFA and Library.*

## **Authorized by:**

*City Council Resolution 2006-006, 2015-055, 2017-101, 2021-010*

## **3.1 Administrative Charges**

Certain General Fund departments render services to departments in other funds and shall be equitably apportioned to those other funds. General Fund departments that do not have a direct billing mechanism shall have their costs allocated using the formula outlined in this section to other funds, and provide offsetting revenue in the General Fund.

### **A. General Fund Departmental Costs to be Allocated**

Certain General Fund departmental costs to be allocated include City Council, City Manager, City Clerk, City Attorney, Human Resources, and Finance. Any services in these departments which are funded by user fees or dedicated revenues are excluded from the allocation.

The amount of costs to be allocated is the current adopted budget for each of the departments listed above less user fees and dedicated revenue. With a multi-year budget, the charge to each fund is increased by a determined percentage for the second future year and then adjusted to the actual calculation with the next multi-year budget.

### **B. How Costs Are Allocated**

The Human Resources costs are allocated on a prorated basis to funds based on the total number of budgeted full-time-equivalent positions in each fund.

All other General Fund administrative costs are allocated on a prorated basis to the funds based upon adjusted expenditure budgets for the current year. Adjustments are made to recognize the lower amount of administrative services required for Capital, Debt Service, and Purchased Power payments. Capital project budgets are reduced by two-thirds and averaged over three years. Debt Service budgets are reduced by three-fourths and the entire Purchased Power budget is deducted from the Light & Power budget.

C. All Funds Receive Allocations but Not All Funds Are Charged

While Administrative Charges are allocated among all City funds, only specified funds are charged. Charges are not made to a fund if it is not self-supporting, it is a Governmental Internal Service fund, or if the funds role is merely to facilitate proper accounting procedures. For example, the Sales and Use Tax fund and Debt Service fund receive amounts which are then transferred to other funds. Charging these funds would lead to double charging many transactions and would not correspond to the level of service provided by the departments in the General Fund.

D. Review

During each budget process, the Administrative Charge calculation will be reviewed by the Budget Office. Minor refinements in the allocation formulas are made as needed. Significant changes will be brought to the City Council for approval to assure that the equitable apportionment meets requirements of the Code/Charter.

## 3.2 Medical Insurance and Retirement Plan

A. Medical Insurance

In 1981, the City of Fort Collins set up a partially self-funded medical insurance program. The objective of a self-funding program is to reduce the cost of medical insurance by assuming the risk for certain plan expenses. Assuming a portion of the risk lowers the amount of charges compared to a conventional full insurance plan. Historically, the City has found this funding method to be a cost-effective means of providing a very desirable employee benefit.

To administer the self-funded and insured portions of the medical insurance plans, the City conducts a competitive proposal process every five years or more often if required. The insurance contracts are reviewed annually for both performance and cost. The types of services contracted for include plan administrative services, stop-loss protection against larger claims, life and accidental death and dismemberment insurance, and long-term disability coverage.

B. Retirement Programs

The City of Fort Collins contributes to two types of retirement plans: a Defined Benefit Plan and Defined Contribution Plans.

1. Defined Benefit Plan - the General Employees Retirement Plan (Plan). The pension plan is closed to new participants as of 1/1/1999.

The Plan document approved by the City Council outlines the details of the program. A Board meets monthly to oversee the program. Board members, in consultation with annual actuary report and other information, make recommendations to City Council for any plan changes that may be needed from time to time. The Plan currently calls for the employer (City) to contribute 10.5%. Because the plan is underfunded, a Supplemental Contribution is made at a fixed dollar amount each year. The Supplemental amount is reevaluated every 2 years in conjunction with the budget cycle and based on the latest actuarial valuation report.

2. 401(a) and 457 Money Purchase Plans. Also known as Defined Contribution Plans, the contribution rates are as follows:

Employee Group	401 a			457		
	Employer	Employee	Waiting	Employer	Employee	Waiting
Classified Employees	6.5%	3.0%	6 months	0.0%	optional	no wait
Classified Employees hired on or before 3/31/07	7.5%	3.0%	6 months	0.0%	optional	no wait
Unclassified Management	6.5%	6.0%	no wait	0.0%	optional	no wait
Unclassified Management hired on or before 3/31/07	7.5%	6.0%	no wait	0.0%	optional	no wait
<del>Direct Reports of City Council</del> <del>Appointed Employees</del>	10.0%	0.0%	no wait	match up to 3%	optional	no wait
<del>Service Area Directors</del> <del>Executive and Senior Leaders</del>	10.0%	0.0%	no wait	match up to 3%	optional	no wait
Police & Dispatch (per union agreement) *	<del>10.5</del> 11%	8.5%	no wait	match up to 3%	optional	6 months for match
Community Service Officer	8.0%	3.0%	6 months	0.0%	optional	no wait

\* All employee groups vest immediately, except Police and Dispatch who follow schedule in union agreement.

Employee contributions to the 457 plan are limited to the amounts published by the IRS.

The City will contract with a third party administrator to provide the Defined Contribution Plans. City Staff comprised of both Finance and HR will oversee the program and performance of the third party administrator.

### 3.3 Fund Organization

Funds for accounting and financial reporting purposes have their own balance sheet and income statement.

The organization of the City’s Funds is designed to enhance accountability and transparency, comply with Generally Accepted Accounting Principles, meet grant requirements, comply with City Code/Charter and comply with Colorado statutes. In City Article V, Section 25 the Financial Officer is empowered to create funds as appropriate. However, City Code Chapter 8, Article III also establishes additional parameters for City funds.

The number of funds established should be the minimum needed for legal and operating requirements. Unnecessary funds can result in inflexibility, undue complexity and inefficient financial administration.

The City’s funds are organized at two levels of groupings; Fund Groups and Fund Types.

#### Fund Groups

Governmental Funds	Used to account for activities primarily supported by taxes, grants and similar revenue sources.
Proprietary Funds	Used to account for activities that receive significant support from fees and charges.
Fiduciary Funds	Used to account for resources that a City holds as a trustee or agent on behalf of an outside party that cannot be used to support the City’s own programs.

Within each Fund Group are Fund Types.

#### Governmental Fund Types

General Fund	Main operating fund used to account for and report all financial resources not accounted for and reported in another fund.
Special Revenue Funds	Used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditure for specific purposes, other than debt service or capital projects.
Debt Service Funds	Used to account for and report resources that are restricted, committed or assigned to expenditure for principal and interest.
Capital Project Funds	Used to account for and report resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets.

### Proprietary Fund Types

Enterprise Funds	Used to account and report any activity for which a fee is charged to external users of goods and services
Internal Service Funds	Used to account and report any activity for which a fee is charged to other funds, departments, or agencies of the City and its component units on a cost reimbursement basis.

### Fiduciary Fund Types

Pension (and Other Employee Benefit) Trust Funds	Used to account and report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans.
Custodial Funds	Used to report resources held by the City in a purely custodial capacity.

The following is a list of all funds of the City, including legally separate entities but from a financial reporting perspective are treated as a component unit of the City.

<b>Group and Type</b>	<b>Legal</b>	<b>Ref.</b>	<b>Name</b>
<i>Governmental</i>			
General Fund	City	100	General Fund
Special Revenue Fund	City	250	Capital Expansion Fund
Special Revenue Fund	City	251	Sales & Use Tax Fund
Special Revenue Fund	Separate	252	General Improvement District #1
Special Revenue Fund	City	254	Keep Fort Collins Great Fund
Special Revenue Fund	City	255	Community Capital Improvement Program
<u>Special Revenue Fund</u>	<u>City</u>	<u>256</u>	<u>2050 Tax</u>
Special Revenue Fund	City	272	Natural Areas Fund
Special Revenue Fund	City	273	Cultural Services & Facilities
Special Revenue Fund	City	274	Recreation Fund
Special Revenue Fund	City	275	Cemeteries Fund
Special Revenue Fund	City	276	Perpetual Care Fund
Special Revenue Fund	City	277	Museum Fund
Special Revenue Fund	City	280	Community Development Block
Special Revenue Fund	City	281	Home Investment Partnership
Special Revenue Fund	City	290	Transit Services Fund
Special Revenue Fund	City	291	Transportation Capital Expansion Fee
Special Revenue Fund	City	292	Transportation Services Fund
Special Revenue Fund	Separate	293	GID #15 - Skyview
Special Revenue Fund	City	294	Parking Fund
Debt Service	City	304	Capital Leasing Corporation
Capital Projects Fund	City	400	Capital Projects Fund
Capital Projects Fund	City	270	Neighborhood Parkland Fund
Capital Projects Fund	City	271	Conservation Trust Fund

<i>Proprietary</i>			
Enterprise Fund	City	500	Golf Fund
Enterprise Fund	City	501	Electric and Telecommunications Fund
Enterprise Fund	City	502	Water Fund
Enterprise Fund	City	503	Wastewater Fund
Enterprise Fund	City	504	Storm Drainage Fund
Enterprise Fund	City	505	Broadband Fund
Internal Service Fund	City	601	Equipment Fund
Internal Service Fund	City	602	Self-Insurance Fund
Internal Service Fund	City	603	Data and Communications Fund
Internal Service Fund	City	604	Benefits Fund
Internal Service Fund	City	605	Utility Customer Service & Admin
<i>Fiduciary</i>			
Pension Trust Fund	City	700	Employees' Retirement Fund
<i>Governmental</i>			
Special Revenue Fund	Separate	800	URA - N. College District
Special Revenue Fund	Separate	801	URA - Prospect South TIF District
Special Revenue Fund	Separate	803	URA - Mall Fund
Special Revenue Fund	Separate	820	DDA Operating Fund
Special Revenue Fund	Separate	821	DDA Fixed Asset and Long Term Debt
Special Revenue Fund	Separate	822	DDA Debt Service Fund

### 3.4 Cost Recovery and Fee Setting

- A. Enterprise Funds shall rely on charges and user fees to recover their costs, rather than taxes. Utility rates will be based upon the cost of service approach to reflect full distribution of costs to appropriate rate classes in order to effect equitable sharing of costs. Rates shall be established and maintained at a level sufficient to maintain positive net income in each of the utility funds after paying the full cost of operating and maintaining the utilities and keeping them in good repair and working order. Such rates shall also be sufficient to enable each utility, where applicable, to meet rate requirements of City or utility enterprise bond ordinances.
  
- B. The Internal Service Funds shall operate under the following guidelines.
  - 1. Internal service fund charges are limited to the recovery of the cost of the service, including depreciation, rather than making a profit. Each fund's prior year financial statements and

estimates of future costs form the basis for the calculation of charges.

2. Charges should be set at a level to avoid significant adverse financial impacts on their customers. Fund customers and independent experts should be allowed to review and make recommendations about the level of charges. The Finance Department should approve the analysis and conclusions used to set rates.
3. Internal service funds should compete with similar services offered by the private sector. The City staff will compare rates every five years. If not competitive with the private sector, the Finance Department will analyze whether the private sector should provide the service.
4. Internal service funds may build up reserves. Customer-approved master plans and independent third-party actuarial reviews (for the Benefit and Self-Insurance funds) guide the level of reserves. Fund managers may spend reserves only for their approved purpose.
5. The City may buy equipment and facilities for the internal service funds through lease-purchase financing. Management's decision to recommend lease-purchase financing depends on: (1) cash flow needs; (2) budget constraints; (3) benefit to cost analysis; and (4) level of reserves.
6. Except for the Utilities Customer Service and Administration Fund, Internal service funds operate under the same guidelines and constraints as the General Fund and other governmental funds of the City. The Utilities Customer Service and Administration Fund shall operate under the guidelines of the Utilities Services Funds.

#### C. Cultural Services & Facilities Fund Fee Policy

1. Total revenue from fees and charges shall cover a minimum of 55% of Lincoln Center Operation and Maintenance and Performing and Visual Arts Programming Budgets. This includes revenues generated at the Lincoln Center from rentals, equipment, concessions and other miscellaneous sources and all total direct revenues from the Performing and Visual Arts Programming. A transfer from the General Fund will make up the difference between total revenue and expenditures.
2. The Cultural Services and Facilities Administration and Museum budgets provide minimal financial support. These programs are funded primarily by a transfer from the General Fund.
3. Major capital improvements and renovations will be financed through sources other than Cultural Services and Facilities Fund.
4. Charitable gifts and donations—raised from the philanthropic sector of foundations, corporations, and individuals to support public initiatives of the City of Fort Collins—will be



made directly to the City of Fort Collins. Acceptance, stewardship, tracking, and expenditures of all charitable gifts are governed by Philanthropic Administrative and City Give Finance Governance Policy with great attention to transparency and accountability.

#### D. Recreation Fund Rates and Charges Policy

Recreation Rates and Charges shall cover between 68% to 75% of all operating costs, with the difference to be covered by the City's General Fund and/or ~~50% of the Keep Fort Collins Great~~ portion voter approved tax revenues dedicated to Parks & Recreation. Equipment and rolling stock shall be considered operating costs in the application of this policy. Recreation Rates and Charges shall not be expected to cover major capital items such as facility and land acquisitions, major renovations to facilities or other costs such as utilities, custodial or grounds maintenance.

### 3.5 Capital Improvement Program

1. Each Service Area or Department shall develop multi-year Master Plans for capital improvements. On a city-wide basis, staff shall compile a 10-year Capital Improvement Plan and update it every two years. Estimates of operating and maintenance costs should be included;
2. Appropriation requests must include not only the cost of construction or acquisition and the funding sources, but an estimate of operating and maintenance costs;
3. Capital improvements projects will be administered in accordance with the Capital Projects Procedures Manual;
4. Appropriations for capital improvements will be constructed and expenditures incurred only for the purpose as approved by City Council;
5. Staff should seek out grants and partnerships whenever appropriate.

### 3.6 Using State Allocation of Private Activity Bonds

- A. **Background:** Conduit debt is issued in a local government's name, but the resources for repayment come from individuals or entities that are not part of government. Entities seek

conduit debt because of the government's ability to issue debt at favorable tax-exempt rates. Private Activity Bonds (PAB) are a form of conduit debt.

Colorado's Private Activity Bond allocation program is established by the Colorado Private Activity Bond Ceiling Allocation Act, Section 24-32-1701, et seq., C.R.S. Pursuant to Section 24-32-1706, annually the City of Fort Collins is offered a portion of the State ceiling as a local government. If the City does not issue bonds or assign bond capacity to an entity for a local project by September 15th annually, the cap automatically reverts back to the state's pool.

Historically, the City has provided this capacity on a first come first serve basis. It has not been uncommon for the City to receive no requests. Because more partners are using programs that can benefit from the lower interest rate that PAB's offer, the City is establishing this process.

- B. **Purpose:** PAB's allow certain private sector activities to receive lower interest rates. PAB's may be used for affordable housing development and rehabilitation, specific economic development programs and for industrial development purposes, among other permitted uses. The City will attempt to find local uses for this development tool.
- C. **Communication:** Information about the program should be placed on the City's website (fcgov.com). Consideration for other advertising and communication methods may be appropriate.
- D. **Awarding and Assigning:** Awarding PAB and Assigning PAB allocations are different processes. Assigning PAB to another qualified issuer is strongly preferred. This is to reduce the administrative investments and leverage the efficiency of qualified issuers who award PAB's regularly. If an entity applies for a direct award under the City's name, staff will attempt to find a qualified issuer that agrees to accept an assignment from the City and issue the PAB under their own authority.
- E. **Application due date:** Written applications to use of Fort Collin's annual PAB allocation are due to the City's Chief Sustainability Officer by March 15th.
- F. **Application Elements:**
  - a. The following items are required when applying for both assignments and direct awards.
    - i. A request letter signed by applicant describing the project the PAB would be used for and including: the applicant's name, address, phone, email address, and principal contact.
    - ii. Amount of allocation being requested.

- iii. Bond counsel firm name, address, phone, email address and principal contact.
  - iv. Description of Applicant's local projects and years of operation
  - v. Number of years' entity has been doing business in State of Colorado
  - vi. Provide a Certificate of Good Standing from the Secretary of State's office.
  - vii. Description of assets to be purchased or constructed and expenses incidental to the project, including the sale of bonds.
  - viii. Explanation of how the project aligns with City objectives.
  - ix. Number of housing units and target demographics
  - x. Statement from competent bond counsel that the project is eligible for qualified private activity bonds.
- b. The following additional items are required in applications for direct awards of PAB:
- Debt Information**
- xi. Name, address, phone of principal contact of the proposed underwriter or lender.
  - xii. Anticipated timetable for bond transaction.
  - xiii. Estimated bond redemption and interest payment schedule
  - xiv. Indicate the type of letter of credit or similar instrument, which will back the debt
  - xv. Disclose if the applicant is involved in any litigation which may affect the validity or repayment of the bonds.
- Financial Information**
- xvi. Audited financial statements for the applicant for the last three years and interim statements for the current year. If not available, please explain why.
  - xvii. Projection of future revenues, expenditures and debt service coverage for the next five years supported by a feasibility study.
- Other**
- xviii. Describe the arrangements that will ensure compliance with arbitrage reporting and payment requirements.
  - xix. Name, address and principal contact person for applicant's local bank.
  - xx. Briefly describe any potential conflicts of interest of personal/ professional/ political relationships between the applicant's officers and/or directors or applicant's operations and the City of Fort Collins.
  - xxi. Any other information which provides evidence of the applicant's ability to repay the bonds and complete the project.
- Debt Security**
- xxii. All arbitrage calculations and payments must be performed by the trustee under the terms of the trust agreement or by any such other arrangement that will ensure compliance. The City must be provided with copies of 8088-T's filed with the IRS.
  - xxiii. The private entity must provide the City with information on the status of the debt annually and upon any material event.

- xxiv. The bond documents must indemnify the City against IRS assessments and legal fees arising from the financing.
  - xxv. The issuer's agent will be responsible for all continuing disclosure requirements.
  - c. Items missing from application may result in disqualification from consideration.
- G. **Fees:** There are no fees for applications that request assignments to another qualifying issuer. However, the following fees apply to applications requesting a direct award of PAB from the City of Fort Collins.
- a. Issuance fee equal to the greater of: A. 0.25% of the par amount of the debt, or B. \$5,000. The fee is capped at \$25,000.
  - b. The cost of a review of the financing by an independent fiscal agent (to be selected by the City)
  - c. Any other direct cost incurred by the City related to the financing.
  - d. There will not be additional issuance fees for any amendment or modification of the original transaction even if it requires official action by City Council, except for actual direct costs of the City.

#### H. **Review Process**

- a. PAB Committee: Applications will be reviewed by a committee of at least 3 people. Members will include at least one representative each from Social Sustainability, Economic Health and Finance. Representatives from other departments, such as the City Manager's Office will be added as needed. Service Area Directors will make the necessary appointments to the PAB Committee.
- b. At a minimum, the following factors should be considered by the PAB Committee when making a recommendation:
  - i. How well the project applied for meets the land use, economic development and/or affordable housing goals of the City of Fort Collins.
  - ii. Project feasibility and timing.
  - iii. Leverage of other investment into the project.
  - iv. Maintenance of or increase in local tax base.
  - v. Competing uses for the City's allocation.
  - vi. Whether the City's allocation should be used in multiple projects.
  - vii. Whether the application should be considered by any City Board or commission.
- c. The PAB Committee will decide on a recommendation no later than July 1.
- d. City Council shall approve all PAB assignments or direct awards. The PAB Committee shall submit their recommendations to the City Council no later than August 15.

## Getting Help

Please contact the ~~Controller~~Accounting Manager with any questions at 970.416.243546.