



Financial Management Policy

Purpose

The City of Iowa Colony assumes an important responsibility to its citizens and customers to carefully account for public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public.

The main goal of this Policy is to help the City achieve a long-term stable and positive financial condition.

The City's financial management policy is based on the foundation of integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Policy is to provide guidance for planning and directing the City's daily financial affairs. There may be situations that require exceptions to these policy statements. In such situations, the policy requiring an exception, the reasons for the exception, and possible impacts of the exception will be brought before the City Council and/or City Manager for approval.

This Policy provides a framework in pursuit of the following objectives.

Financial Objectives

Revenues: Design, maintain, and administer a revenue system that will assure a reliable, equitable and sufficient revenue stream to support desired City services.

Expenditures: Identify priority services, establish, and define appropriate service levels and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of these services.

Fund Balance/Retained Earnings: Maintain the fund balance and retained earnings of the various operating funds at levels sufficient to protect the City's credit worthiness, as well as its financial position, during times of emergency.

Capital Expenditures and Improvements: Annually review and monitor the condition of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives and availability of resources.

Debt Management: Establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements, while minimizing the impact of debt payments on current and future revenues.

Investments: Invest the City's operating cash to ensure its safety, provide necessary liquidity and maximize yield.

Intergovernmental Relations: Coordinate efforts with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis and support appropriate favorable legislation at the state and federal levels.

Grants: Aggressively investigate, pursue, and effectively administer federal, state and foundation grants-in-aid, which address the City's current priorities and policy objectives.

Economic Development: Initiate, encourage and participate in economic development efforts to create job opportunities, strengthen the local economy, and tax base.

Fiscal Monitoring: Analyze financial data and prepare reports that reflect the City's financial performance and economic condition.

Accounting, Auditing and Financial Reporting: Comply with prevailing federal, state, and local statutes and regulations. Conform to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB), American Institute of Certified Public Accountants (AICPA) and the Government Finance Officers Association (GFOA).

Internal Control: Maintain an environment to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition.

Risk Management: Prevent and/or reduce financial impact to the City of claims and losses through prevention and transfer of liability.

Budget: Develop and maintain a balanced budget (defined as a term signifying budgeted expenditures being offset by budgeted revenues), which presents a clear understanding of goals, service levels and performance standards. The document shall, to the extent possible, be "user-friendly" for citizens.

Revenues

The City shall use the following guidelines to design and administer a revenue system that will assure a reliable, equitable and sufficient revenue stream to support desired City services.

Balance and Diversification in Revenue Sources

- The City shall strive to maintain a balanced and diversified revenue system to protect the City from fluctuations in any one source due to changes in economic conditions, which adversely impact that source.

User Fees

- For services that benefit specific users, where possible, the City shall establish and collect fees to recover the full direct and indirect cost of those services. City staff shall review user fees on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure and to recommend adjustments where necessary.

Property Tax Revenues/Tax Rate

- The City shall endeavor to reduce its reliance on property tax revenues by revenue diversification, implementation and continued use of user fees and economic development. The City shall also strive to stabilize its tax rate and minimize tax rate increases.

Utility/Enterprise Funds User Fees

- Utility rates and enterprise funds user fees shall be set at levels sufficient to cover operating expenditures, meet debt obligations, provide additional funding for capital improvements, and provide adequate levels of working capital.

Administrative Services Charges

- The City shall prepare a cost allocation plan annually to determine the administrative services charges due the General Fund from enterprise funds for overhead and staff support. Where appropriate, the enterprise funds shall pay the General Fund for direct services rendered.

Revenue Estimates for Budgeting

- In order to maintain a stable level of services, the City shall use a conservative, objective and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year, which otherwise could result in mid-year service reductions.

Expenditures

The City shall use the following guidelines to identify necessary services, establish appropriate service levels and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.

Current Funding Basis

- The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues.

Contracted Labor

- The City will utilize contracted labor for the provision of City services whenever private contractors can perform the established levels of service at the least expense to the City.

Avoidance of Operating Deficits

- The City shall take immediate corrective action, if at any time during the fiscal year, expenditure and revenue estimates are such that an operating deficit is projected at year-end.

Maintenance of Capital Assets

- Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance costs and to continue acceptable service levels.

Periodic Program Reviews

- Periodic program review for efficiency and effectiveness shall be performed. Programs not meeting efficiency or effectiveness objectives shall be brought up to required standards or be subject to reduction or elimination.

Purchasing

- The City shall make every effort to maximize any discounts offered by creditors/vendors. The City will follow state law and the City of Iowa Colony Purchasing Manual concerning formal bidding procedures and approval by the City Council. For purchases where competitive bidding is not required, the City shall obtain the most favorable terms and pricing possible.
- The City Manager, or his designee, shall have the authority to approve and sign contracts and/or purchases for budgeted goods or services that do not exceed the state law bid limitation of \$50,000. Contracts or purchases for items in excess of the state law bid limit shall be placed on a Council agenda for action authorizing the Mayor, or his designee's signature.

Fund Balance/Working Capital/Net Assets

The City shall use the following guidelines to maintain the fund balance and retained earnings of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position from unforeseeable emergencies.

General Fund Unassigned Fund Balance

- The City will establish a target level of unassigned fund balance to alleviate revenue shortfalls and/or unanticipated expenditures to ensure the orderly and continued provision of services.
- The City shall strive to maintain an unassigned fund balance in the general fund equal to at least 25 percent of normal recurring operating costs, based on the current year's budgeted operating expenditures.
- Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe. Any unassigned funds after the fiscal year-end audit will be allowed to accumulate to build this reserve.

Capital Expenditures and Improvements

The City shall annually review and monitor the condition of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives and availability of resources.

Capital Improvements Planning Program

- The City shall annually review the Capital Improvements Planning Program (CIP), the current status of the City's infrastructure, replacement and renovation needs and potential new projects and update the program as appropriate. All projects, ongoing and proposed, shall be prioritized based on an analysis of current needs and resource availability. For every project, all operation, maintenance, and replacement costs shall be fully disclosed. The CIP shall also present the City's

long-term borrowing plan, debt payment schedules and other debt outstanding or planned, including general obligation bonds, revenue bonds and certificates of obligation.

Replacement of City Vehicles

- The City shall annually prepare a schedule for the replacement of its vehicles. Within the resources available each fiscal year, the City shall replace these assets according to this schedule.

Capital Expenditures Financing

- The City recognizes that there are several methods of financing capital items. It can budget the funds from current revenues; take the funds from fund balance/working capital, as allowed by the Fund Balance/working capital policy; utilize funds from grants; or it can borrow the money through some form of debt instrument. Debt financing includes general obligation bonds, revenue bonds, certificates of obligation and capital lease agreements.

Debt Management

The City shall use the following guidelines for debt financing used to provide needed capital equipment and infrastructure improvements, while minimizing the impact of debt payments on current and future revenues.

Use of Debt Financing

- Debt financing, to include general obligation bonds, revenue bonds, certificates of obligation and capital lease agreements, shall only be used to acquire capital assets.

Amortization of Debt

- Amortization of debt shall be structured in accordance with a multi-year capital improvement plan. The term of a debt issue will never exceed the useful life of the capital asset being financed.

Affordability Targets

- The City shall use an objective, analytical approach to determine whether it can afford to assume new debt beyond the amount it retires each year. This process shall compare generally accepted standards of affordability to the current values for the City. These standards shall include debt per capita, debt as a percent of taxable value and debt service payments as a percent of current revenues and current expenditures. The process shall also examine the direct costs and benefits of the proposed expenditures as determined in the City's annual update of the Capital Improvements Planning Program. The decision on whether or not to assume new debt shall be based on these costs and benefits and on the City's ability to afford new debt as determined by the aforementioned standards.

Sale Process

- The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated bid.

Rating Agencies Presentation

- Full disclosure of operations and open lines of communication shall be made available to the rating agencies. City staff, with the assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies.

Continuing Disclosure

- The City is committed to continuing disclosure of financial and pertinent credit information relevant to the City's outstanding issues.

Debt Refunding

- City staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. A proposed refunding of debt, for interest cost savings, should provide a present value benefit as a percent of refunded principal of at least 3%.

Investments

The City's cash shall be invested in such a manner that will ensure the absolute safety of principal and interest, to meet the liquidity needs of the City and to achieve the highest possible yield in accordance with the City's Investment Policy. Interest earned from investment shall be distributed to the City's funds from which the money was provided.

Grants

The City shall seek to obtain and effectively administer federal, state and foundation grants-in-aid that address the City's current and future priorities and policy objectives.

Grant Guidelines

- The City shall seek to obtain those grants that are consistent with priority needs and objectives identified by Council.

Indirect Costs

- The City shall recover indirect costs to the maximum amount allowed by the funding source. The City may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant.

Grant Review

- The City shall review all grant submittals requiring an in-kind match requirement to determine their potential impact on the operating budget, and the extent to which they meet the City's policy objectives. If there is a cash match requirement, the source of funding shall be identified and approved prior to application.
- Prior to submission, the Finance department will review all grant requests to ensure the benefits to the City exceed the administrative costs incurred throughout the life of the grant.

Grant Program Termination

- The City shall terminate grant-funded programs and associated positions as directed by the City Council when grant funds are no longer available unless alternate funding is identified.

Accounting, Auditing and Financial Reporting

The City shall comply with prevailing local, state, and federal regulations. Its accounting practices and financial reporting shall conform to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB), American Institute of Certified Public Accountants (AICPA) and the Government Finance Officers Association (GFOA). The City Council shall select an independent firm of certified public accountants to perform an annual audit of its accounting and financial reporting practices.

Internal Control

The Director of Finance is responsible for developing citywide, written guidelines on accounting, handling of cash and other financial matters. The City Manager will assist Department Directors as needed in tailoring these guidelines into detailed written procedures to fit each department's specific requirements. Each Department Director is responsible to ensure that good internal controls are followed throughout his or her department, that all finance department guidelines on purchase and internal controls are implemented, and that all independent auditor control recommendations are addressed.