



CITY COUNCIL ACTION FORM

Department Finance	Presented by Aimee Tihonovich - Finance Director	Date September 21, 2021
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ITEM

Consent Agenda – approve Financial Policy Statement

BACKGROUND

The City utilizes various policies and processes to increase efficiency and to standardize treatment. The following financial policy statement is a combination of long-term processes of the City, summaries of previously adopted policies, or statements of new practices to be implemented in order to better address best practices.

This policy statement will be incorporated in the 2022 Budget Document in order to achieve a requirement by GFOA for receiving the “Distinguished Budget” award.

FISCAL NOTE

There is no fiscal impact

STAFF RECOMMENDATION

Staff recommends approval of the Financial Management Policies

SUGGESTED MOTION

A council person should make a motion to “combine and approve the items on the consent agenda” followed by a second and a roll call vote.

Financial Policies

The City of Salida utilizes various policies and processes to increase efficiency and to standardize treatment. Accounting standards conform to Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB). Best practices recommended by the Governmental Finance Officers Association (GFOA) also guide accounting standards and financial policies. The below policies describe the policies and processes of the City which each year will be reviewed, updated and formally adopted by City Council. In some cases, these policy statements summarize more formal policies adopted separately by Council (i.e. the Municipal Code, Purchasing Policy, Investment Policy, Personnel Policy and Fund Balance Policy); the full policies will override any unintended conflicts in this summary statement.

LEGAL POLICIES

The City of Salida, incorporated in 1880, is a Statutory City under the constitution of the State of Colorado that follows the mayor-council form of government. The Mayor, the Treasurer and six Councilmembers are directly elected. There are three wards in the City, and two Councilmembers represent each ward, serving staggered four-year terms. Policy making and legislative authority are vested in the governing body consisting of the Mayor and six Councilmembers. Council members serve four-year terms, with three members elected every two years. The Mayor is elected for a two-year term. According to Colorado statutes, officials elected to two-year terms are eligible for three terms. Councilmembers and the Treasurer are elected to four-year terms and are limited to two terms. The City Council appoints the City Administrator, the City Attorney and the City Clerk. The City Administrator appoints Department Directors.

The City passes ordinances at the City Council level through resolution. An annual appropriation by Council is a resolution that appropriates funds the Council deems necessary to defray all expenses and liabilities of the City during the fiscal year. [Chapter 4 of the City's Municipal Code](#) is available on the City's website and sets forth the rules and legal requirements of the financial functions of the City.

MEASUREMENT FOCUS and BASIS OF ACCOUNTING

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus.) Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

For budgeting purposes, all funds use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (within 60 days after December 31). Expenditures are generally recognized when the related liability is incurred. Capital purchases are shown as a capital expense. Both principal and interest payments are budgeted as current year expenses. New debt proceeds are shown as revenues.

At year-end, the Utility (Water and Wastewater) funds are converted to the long-term economic focus and accrual basis of accounting for audited financial statement presentation purposes since these funds have “business-type” activities. Throughout the year, however, the budgets for the Utility funds are monitored using the basis and measurement focus described in the previous paragraph.

BUDGET DEVELOPMENT PROCESS

In preparation for kicking off the development of the annual budget, the Finance Department develops revenue projections for each regularly occurring revenue stream and builds base budget levels for each revenue line item in the budget. Then, base budget levels are also developed for each expense line item at a level sufficient for maintaining the existing level of operations within each department. If revenue continues to support basic operations, the base level budgets are then released to Department Directors who are responsible for proposing any adjustments to the base numbers and for requesting new programs, capital expenditures and adding any new revenue streams such as anticipated grant awards. Any request for new funding needs to align with Council’s strategic plan. In years where anticipated revenue does not support operations, a zero budget process will be implemented as necessary to rebuild the budget from scratch, reducing programs as necessary to an affordable level.

After all requests are submitted, the Treasurer, City Administrator and Finance Director review new requests and prioritize against available resources to develop recommended budget levels that are presented to Finance Committee and finally the Mayor and City Council. City Council reviews the budget requests in a series of public-facing work sessions. The recommended budget is typically made available to the general public by the end of August and never later than the State statutory deadline of October 15. A public hearing is held on the budget prior to adoption by Council after appropriate notice is given. The budget is typically adopted at the 2nd Council meeting in the month of October prior to November elections so that any newly elected Councilmember does not have to vote on a budget they did not work on (Councilmembers are sworn in around mid-November and the Colorado statutory deadline for adopting the budget is December 31).

The below table shows the budget calendar utilized by the City.

City of Salida Budget Calendar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Council retreat to set strategic goals for the upcoming year													
Finance department develops base budget levels													
Departments set goals tied to Council strategic goals and develop budget requests for upcoming year													
Finance Director develops recommended budgets with direction from Treasurer and City Administrator													
Council reviews budget requests at public work sessions and provides direction to staff													
Recommended budget levels available for public inspection													
Public hearing held													
Budget adopted by Council													
Budget document developed by Finance Department													
Budget document completed, posted to web site, and submitted to State.													

PUBLIC ENGAGEMENT

The public has numerous opportunities to engage in the budget process. All budget discussions with City Council are held openly during posted meetings, the City broadcasts live all budget meetings and encourages questions from citizens and answers all questions fully and timely. Council listens to feedback and gives careful consideration to all requests. A budget document is published on the website and budget information is available through the City’s financial reporting software program called *OpenGov* which puts financial data into a format that is more easily understood by laymen with the use of interactive charts and graphs. The budget is a featured story each budget season in Salida’s monthly newsletter, *The Salida Standard*. The newsletter is widely promoted and available on the City website as well as through a free email subscription.

BALANCED BUDGET

The budget proposed by the City Administrator shall not propose expenditures in excess of estimated opening balances and anticipated income. This applies to all funds. The City is not to use fund balance as a long-term approach to balance the budget. Planned uses of fund balances should be limited. It is only appropriate to use fund balances below the City’s prescribed Fund Balance policy (see Fund Balance Policy section for more detail) when there is a severe economic downturn or a one-time special project that City Council wishes to use the funds for. This provides the City time to make the necessary structural changes to bring the budget into alignment on a long-term basis.

It is appropriate to use fund balance due to higher than anticipated revenues or unspent appropriation from the previous fiscal year. In this circumstance, the use of fund balance should be used for one-time expenditures, not ongoing operating costs. In all situations it is important to retain sufficient undesignated fund balance for unforeseen economic conditions.

The Finance Director is responsible for ensuring the current year budget is in balance and will, along with the City Administrator, advise the Finance Committee, Mayor and Council on year-to-date expenditures, revenues, and any necessary corrective actions.

LONG-RANGE PLANNING

The City needs to anticipate future challenges with revenue and expense imbalances so corrective action can be taken to maintain financial stability. The Finance Director shall annually develop a three-year General Fund revenue and expenditure forecast using reasonable and historically-based assumptions to provide City officials with pertinent data to make decisions for multi-year policy direction. This forecast will identify changes in revenue and expenditures with consideration of projected new development in the City, program changes, costs associated with personnel such as health insurance and wage increases, asset replacement schedules, and capital projects coming online. Periodically, (at least every 5 years) strong consideration will be given to hiring an outside consultant with expertise in developing long-range plans for municipalities to put together a complete Financial Management Plan that will be used to reset, as necessary, the financial targets for the City.

All City divisions are required to assess and report annually on necessary capital improvement projects for the subsequent five years.

During the budgeting process all capital improvement projects are analyzed to determine if they reduce, maintain, or increase operating and maintenance costs. When budgeting for new capital equipment or projects, total life cycle cost, financing and sourcing options from acquisition, through end of life/disposition should be considered.

ASSETS

Capital Assets and Capitalization Threshold

The City qualifies a capital asset as having a cost of \$5,000 or more and a useful life of one year or more. Ancillary charges necessary to place the asset into its intended location and condition of use are considered part of the cost (i.e. freight, site preparation cost, installation).

Infrastructure assets are long-lived capital assets and are normally stationary in nature. Examples include roads, bridges, drainage systems, and water and sewer systems. Infrastructure assets are capitalized when the cost is greater than \$25,000. Maintenance of existing infrastructure (i.e. chip and seal of existing roads) is expensed in the year of the repair and not capitalized.

A capital asset is to be reported and depreciated in government-wide financial statements. In the fund financial statements, capital assets are expensed in the year of acquisition for all Governmental Funds. As mentioned previously, within the budget, capital purchases are recorded as a capital expense in the year of purchase.

Inventory and Condition Assessment

Each department or division shall verify capital asset inventory records each year and must also develop systems and processes to assess the condition of the capital assets they are responsible for maintaining. This condition assessment shall be utilized in requesting budget funds and long-term planning.

REVENUE POLICIES

Revenue Diversification

The City values a diversified mix of revenue sources to mitigate the risk of volatility. The major source of revenue for the General Fund is sales tax. Since sales tax is a direct function of business cycles and inflation, it is important to evaluate opportunities to improve the diversity of the City's revenue sources.

Fees and Charges

The City annually reviews its fees and fines to ensure they are consistent with the costs they are set to recover.

The general policy of the City of Salida regarding fees and charges is based upon the following considerations:

- Tax dollars should support essential City services that benefit and are available to everyone in the community (such as parks, police and fire protection).
- For services that largely or solely benefit individuals, the City should recover full or partial costs of service delivery through user fees.
- A fee should not be imposed on services where the cost to collect the fee exceeds the cost of the service and user fees must not exceed the full cost of providing the service.
- Fee increases, as well as new fees, must be approved and implemented prior to including associated revenue increases in the proposed budget.
- User fee pricing policies should take into consideration:
 - Whether the service benefits the general community or only the individual or group receiving the service.
 - Whether the service is only provided by the public sector or also by the private sector.
 - Whether imposing the full fee cost would pose a hardship on specific service users.
 - Whether imposing the full fee cost would place the City at an economic disadvantage.
 - Whether not imposing a full cost fee would create an unrealistic demand on the service.
- The full costs of providing a service can include the following:
 - Direct costs associated with providing the service, including:
 - The cost of the time all employees spend on the service, including fringe benefits.
 - Other direct costs, such as materials and supplies, contractual services, or legal fees associated with the service.
 - Building and equipment depreciation.
 - Supervision, clerical support, etc.
 - Departmental indirect costs such as an allocation of accounting and utility costs.

Use of One-time Revenues

One-time revenues should be used only for one-time expenditures and not for ongoing expenditures. By definition, one-time revenues cannot be relied upon in future budget years. Examples of one-time revenues are sales of City assets, and one-time payments to the City.

Investing in projects that will result in long-term operating or capital cost savings is the best use of one-time revenues. For example, these may include early debt retirement, capital expenditures that will reduce operating costs or address deferred capital needs, information technology projects that will improve efficiency, and special projects that will not incur ongoing operating costs.

Use of Unpredictable Revenues

Sales tax revenue is a direct function of the business cycle and therefore a volatile source of revenue. During periods of strong growth, sales tax revenue has seen double digit increases from the previous year. During periods of recession, sales tax revenue has been lower than the previous year. It is not prudent to allocate sales tax revenue that exceeds the normal growth rate (defined as the 10 year average historical annual growth rate) to ongoing programs. Therefore, sales tax revenues exceeding the normal growth rate should be used for one-time expenditures or to increase reserves for the next inevitable economic downturn. When sales tax revenue growth is less than the normal growth rate, it may be necessary to use reserves until appropriate expenditure reductions or other measures can be implemented.

Use of Capital Improvement Project (CIP) Fund Revenues

Capital improvement funds are used for the acquisition, repair, or rehabilitation of assets that last for 15 years or more and which support the governmental purposes of the City. A project can be considered a capital improvement project if it is for nonrecurring expenses in excess of \$25,000.

The Proprietary Funds (Water and Wastewater) are supported by fees generated within those funds and projects supporting those funds should not be charged to the Capital Improvement Fund. The Streets Fund receives its own allocation of sales tax revenues and, generally, street projects should be charged to the Streets Fund.

The primary financial resources dedicated to the Capital Improvements Fund include an allocation of 8% of the sales tax collections. For large new projects, Council may apply any accumulated funds within the General Fund if the new project is deemed important to the mission of the City and fits into the strategic plan.

Expenditures from the Capital Improvement Fund emphasize repair, rehabilitation, and upgrades to existing City infrastructure.

Capital funds are dedicated to capital uses as defined above, as well as capital planning studies. Capital planning studies include asset condition evaluations, infrastructure inventories, concept planning, master plans, and design.

Grants

The Finance Department reviews grant applications to determine whether matching funds are available. Grant-funded programs for which funding is ending will be evaluated for alternative funding as part of the annual budget process as appropriate.

Investments

The City Administrator along with the Finance Director are responsible for all investment decisions and Council has approved policies around this important issue. An investment advisor, registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940, works with the City to guide appropriate investment decisions.

The Finance Committee receives quarterly updates from the Investment Advisor. When time is of the essence in making investment decisions, The City Administrator and the Finance Director are empowered to act within policy guidelines; however, they will concurrently inform the Treasurer. Such decisions will be reported at the next Finance Committee meeting.

The City's principal investment objectives, in priority order, are legal conformance, safety, liquidity, and return on investment. All investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

EXPENDITURE POLICIES

The City is committed to ensure the proper control of expenditures and strives to provide a quick and effective response to adverse financial situations. Generally, all operating expenditures in a fund must be supported by the operating revenues generated by that fund, and expenditures will not expand beyond the government's ability to pay for them with current revenues.

Personnel Compensation

The City of Salida strives to provide excellent service to the community at all times. As a service organization, employees are the most valued asset of the City. To achieve service standards, the City must attract and retain highly qualified employees who exemplify organizational values. Creating an environment attractive to such employees depends upon many factors including a competitive compensation program. The City's compensation philosophy is based on both internal and external considerations including the relative labor market and the fiscal health of the City. The following considerations guide the employee pay plan:

- A pay range is developed for each position. The midpoint of the range is the market value for a seasoned, fully functioning staff member.
- Periodically, the City contracts with an outside, third party compensation consultant to ensure the salary range structures are competitive with the job market.
- Annual cost of living adjustments (COLA) require approval of the City Council and will result in the pay ranges being moved up by the approved COLA percentage.
- The COLA is generally implemented January 1 of each year and applies to all employees, with the exception of the City Administrator and City Clerk (see below).
- The COLA is generally tied to the Bureau of Labor Statistic's Employment Cost Index (ECI) for State and Local government workers.
- City Council appoints and sets the salary for the City Administrator and the City Clerk.
- The City Administrator sets the salary for all other positions within the approved pay range based on experience and perceived value of the employee.

Debt

Debt is an effective way to finance capital improvements or to smooth short-term revenue inflows. Properly managed debt preserves the City's credit rating, provides flexibility in current and future operating budgets and provides the City with long-term assets that maintain or improve quality of life.

Planning and Conditions of Issuance of Obligations

The City Administrator shall evaluate and consider the following factors in analyzing, reviewing, and recommending the issuance of obligations:

- Purpose and feasibility of the project.
- Public benefit of the project.

- Impact on debt ratios generally applied by rating agencies.
- Impact on the General Fund.
- Availability of appropriate revenue stream(s) to pay for the debt and any future operating costs related to the project financed.
- Requirements for and costs of debt with a vote for approval of the financing.
- Debt service requirements including credit implications.
- Aggregate debt burden upon the City's tax base, including other entities' tax-supported debt.
- Analysis of financing and funding alternatives, including interfund borrowing and available reserves from other City Funds.
- Impact to other capital needs and requirements.
- Political and policy implications.
- True interest cost of the proposed financing.
- Opportunity costs of City resources being deployed on the project.
- If refinancing: the net present value savings, size of issue, absolute dollar savings, and number of years remaining on outstanding obligations.

Professional Assistance when Issuing Debt

Analyzing and issuing debt is complex and bond counsel and licensed Municipal Advisors should be hired to assist with the process. The Finance Department and City Attorney's Office will coordinate the transaction. Operating and Capital leases can generally be managed without assistance from an outside consultant.

Budget Monitoring and Control

Department and division Directors have primary responsibility for the control of budgeted expenditures, the collection of budgeted revenues, and the delivery of service in accordance with the adopted annual budget.

Department Directors are responsible for identifying significant changes in spending or revenue variances. Departments must notify the Finance Director of all significant changes to the budget. A department must identify the cause and recommend solutions to minimize unanticipated costs to the City as part of this notification.

The budget is adopted at the fund level. Changes within each fund can be accomplished with a budget transfer without formal approval as long as the fund's budget in total remains intact. Departmental budgets within a fund are managed to the bottom line and Department Directors can overspend one line item as long as other line items are underspent by at least an equal amount. However, Department Directors cannot create a new ongoing expense such as a new employee with one-time savings in their budget. As necessary, the Finance Department will coordinate a legal amendment to the budget, as conditions dictate.

The Finance Department is responsible for monitoring the implementation of the City's adopted annual budget and will prepare monthly actual expenditure and revenue reports compared to the budgeted amounts for Finance Committee review. The formal monthly monitoring of revenues and expenses

against budget goals with the Finance Committee will begin in April each year as the first 3 months of the year are generally not sufficient to identify trends. Internal monitoring occurs constantly and any significant issues that arise will be brought to the attention of the Mayor and Finance Committee and any concerns are addressed immediately in the most appropriate, agreed upon fashion.

As a statutory City, the State of Colorado collects sales taxes on behalf of the City of Salida and distributes funds to the City in one payment per month. That payment occurs more than one month after the collection period in which the taxes are earned (i.e. the City receives taxes earned January in early March, generally by the 10th of the month). The City needs to wait an additional five days to receive its allocation of a share of Chaffee County sales tax dollars resulting from a long-term intergovernmental agreement.

Since sales tax is such an important indicator of financial health for the City, the City is quick to recognize the tax payments and analyze the amounts received against prior year collections for the same period and with budget goals. A sales tax report is distributed to the Mayor, Finance Committee, City Council and posted on the City website monthly, and budget plans are altered if this important indicator so dictates. Retail, accommodations and food service are the principal sources of sales tax revenues, accounting for more than 80% of the total. As such, trends in these sectors bear close watching.

The Finance Department will also monitor department progress in completing their projects have been appropriated within the annual budget through regular communication with departments. Additionally, the Finance Office will work with departments to develop corrective action plans, as necessary.

FUND BALANCE POLICY

Fund balance is defined as accumulated revenues over expenditures that may be appropriated for use by City Council. In total, fund balance represents everything owned by the City (assets) less everything owed (liabilities). Not all fund balance is available for appropriation. The following categories are deemed as “not available” for appropriation:

Non-spendable – includes fund balance amounts such as inventories or prepaid assets which are non-spendable by nature.

Restricted – includes fund balance amounts that are constrained by an outside agency for specific purposes such as statutory restrictions (i.e. TABOR emergency reserves) and funds collected for a specific purpose (i.e. the unspent portion of grants paid in advance). These amounts are only available for appropriation tied to the restricted purpose.

The following categories generally are “available” for appropriation and are the fund balance amounts disclosed in the budget documents:

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action by Council. Council can choose to free the commitment as plans change.

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council or the City Administrator. These amounts are available for appropriation.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the other above-mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes. Positive unassigned fund balance is available for appropriation.

The City’s fund balance policy defines the level of *available* reserves to be held in each fund. It is essential that governments have a level of savings sufficient for operating cash flow, to provide a backup for revenue shortfalls, to mitigate against uncontrollable costs and a variety of other current and future risks, and to help ensure stable rates for taxpayers and ratepayers. Fund balance levels are a crucial consideration in long-term financial planning.

This policy also recognizes that, while reserves provide the City Council with the ability to respond to and safeguard from uncertainty and risk, excessive reserves could be used for additional services or even result in the reduction of taxes or fees. The following fund balance levels are established for the unique needs and differing situations of each of the various funds.

Fund	Reserve Policy Description (Continued)	Allowable use
Economic Development Fund	Minimum available fund balance of 25% of previous year's operating expenditures.	Can be spent on City Council approved Economic Development purposes
Conservation Trust Fund	No minimum reserve is required. These funds can be spent for allowable purposes to a zero balance annually but funds can also be kept in reserve to grow to a sufficient level for larger one time project needs.	For acquisition, development, and maintenance of new conservation sites or for capital improvements or maintenance for recreational purposes on any public site.
Water & Wastewater	A minimum available fund balance of 25% of previous year's operating expenditures should be maintained for operating. For capital, reserves should accumulate for future debt service payments and in anticipation of future capital needs.	All activities of the water and wastewater systems

Fund	Reserve Policy Description (Continued)	Allowable use
Capital Improvement Fund	No minimum reserve is required. Long range capital plans should be considered and reserves should be built up as necessary when possible to fund future needs.	Can be spent on acquiring or constructing any improvement or for acquiring land or equipment as well as costs associated with issuing bonds.
Streets Fund	Minimum available fund balance of 25% of previous year's operating expenditures. Amount may be modified by Council upon analysis of trends and forecast along with any likely or known factors that would reduce the City's revenue. It is possible that this fund balance could grow as funds are saved up for large maintenance projects.	Must be spent on Streets Fund related activities
Economic Development Fund	Minimum available fund balance of 25% of previous year's operating expenditures.	Can be spent on City Council approved Economic Development purposes
Conservation Trust Fund	No minimum reserve is required. These funds can be spent for allowable purposes to a zero balance annually but funds can also be kept in reserve to grow to a sufficient level for larger one time project needs.	For acquisition, development, and maintenance of new conservation sites or for capital improvements or maintenance for recreational purposes on any public site.
Water & Wastewater	A minimum available fund balance of 25% of previous year's operating expenditures should be maintained for operating expenses. For capital, reserves should accumulate for future debt service payments and in anticipation of future capital needs.	All activities of the water and wastewater systems

The fund balance policy allows for flexibility in the event of:

- Unexpected revenue shortfall,
- One-time expenditures outside the scope of normal ongoing operations,
- Unusual operating cash flow needs, such as pending collection of a large grant receivable (i.e. timing difference between use of funds and collection of revenue).

In the event that Council deems it appropriate to spend below the fund balance policy limits, plans will be made to replenish the funds in the subsequent annual budget.

PURCHASING POLICY

The City of Salida has adopted a policy to ensure purchases are made in accordance with Colorado Revised Statutes and cash is disbursed only for authorized expenditures after the receipt of acceptable goods or services is verified. The policy also helps ensure that all expenditures are properly recorded in the accounting system and reported in financial reports as required by governmental accounting standards.

Specific to the budget or management of the budget, clauses in the policy dictate that any purchase of goods or services not included in the approved budget must be approved by Council prior to committing the funds. The City Administrator and Department Directors must manage their expenditures within the level of detail as approved by Council (typically the Fund level). When unexpected circumstances occur to cause an approved expenditure to exceed the approved amount causing a Fund's budget to run over budget, a budget amendment must be taken to Council for their review and approval prior to the commitment of additional funds, except in emergency situations or where it is impractical to do so.

The City utilizes the Rocky Mountain E-Purchasing system to increase exposure for Request for Proposals (RFP).

ANNUAL AUDIT

After each fiscal year, a comprehensive annual financial report will be prepared and a certified public accounting firm will conduct an audit of the City's records. The comprehensive annual financial report will include an independent audit opinion regarding presentation of the financial statements, taken as a whole, in conformity with accounting principles generally accepted in the United States. This report will be made available to Council, staff, bond-rating agencies and the general public. The accounting firm will also issue a communication to City Council regarding the important observations arising from the audit.