

CITY OF TONTITOWN

FINANCIAL POLICY STATEMENT

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FISCAL & BUDGET POLICY MEASUREMENT GUIDELINES

Fiscal control and planning are necessary to ensure that the City's current and future finances will remain sound. The following guidelines will be used throughout the budgeting process. Unless so indicated, the budgeted expenses will be determined based on the fiscal & budget policy measurement baseline.

FISCAL & BUDGET POLICY MEASUREMENT BASELINE:

Total Revenues for each department.

SPECIFIC POLICY GUIDELINES BY CATEGORY:

Operating Expenses — The budget goal or objective is for operating expenses not to exceed 85% of the defined fiscal & budget policy measurement of revenue.

Capital Expenditures — The budget goal or objective is for capital expenditures not to exceed 10% of the defined fiscal & budget policy measurement baseline.

Vehicle & Equipment Replacement Expenditures — The budget goal or objective is for vehicle and equipment replacement expenditures not to exceed 3% of the defined fiscal & budget policy measurement baseline

Fund / Financial Reserves — The budget goal or objective is for a minimum of 2% of the defined fiscal & budget policy measurement baseline to be contributed to reserves on an annual basis.

OPERATING EXPENDITURE

Operating Expenditures must meet the City's requirements to provide services within the framework of available revenues. The following operating expenditure policies will guide the evaluation and control of the City's appropriations and expenditures.

OPERATING BUDGET

- The annual operating budget as accepted by the Council will be adhered to in detail unless a conscious management decision is made to deviate from the budget. Any substantial alteration to the budget must be approved by the Council.
- The city will balance operating expenditures with operating revenues unless specifically budgeted otherwise.

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- The city will pay for all current expenditures with current revenues. The city will avoid expenditures at the expense of meeting future year's expenses, such as postponing expenditures, accruing future years' revenues, or rolling over short-term debt.
- The budget will provide for adequate maintenance of capital plant and equipment and for their orderly replacement.
- The budget will provide for adequate funding of all retirement systems.
- The city will maintain a budgetary control system to help it adhere to the budget.
- The Account will prepare regular reports comparing actual revenues and expenditure to budgeted amounts.
- Each year, the city will update capital expenditure projections for the next ten years. Projections will include estimated operating costs of future capital improvements that are included in the capital budget.
- Where possible, the city will integrate performance measurement, productivity indicators, and goals with the budget.

CAPITAL IMPROVEMENTS PLANNING

Policies for the capital improvements program are intended to encourage planning for future growth and infrastructure repair within the framework of the city's other financial policies.

CAPITAL IMPROVEMENTS

- The city will make all capital improvements in accordance with an adopted capital improvement program.
- The city will develop a multi-year plan for capital improvements and update it annually.
- The city will enact an annual capital budget based on the multi-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be calculated and included in capital budget projections.

- The city will coordinate development of the capital improvement budget with development of the operating budget. Operating costs associated with new capital improvement will be projected and included in the operating budget.
- The city will use reserves assistance to finance only those capital improvements that are consistent with the capital improvements plan and City priorities, and whose operating, and maintenance costs have been included in operating budget forecasts.
- The city will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
- The city will project its equipment replacement and maintenance needs for the next several years and will update the projection each year. From this projection, a maintenance and replacement schedule will be developed and followed.
- The City will identify the estimated costs and potential funding sources, including grants, for the capital project proposal before it is submitted to the Council for approval.
- The city will determine the least costly financing method for all new projects.

DEBT MANAGEMENT

The issuance of debt is a necessity for the financing of many major capital improvements. Determining the method and timing for financing is subject to many considerations. The City's debt policies are intended to encourage conservative debt management while maintaining the flexibility to use the various financing mechanisms which are available to the City.

One of the City's financing goals is to minimize as much as possible the impact of debt issuance on citizens, other revenue sources including impact fees will be used, when available, to abate sales tax obligation debt payments. Alternative methods of financing such as revenue bonds, special assessment debt, lease purchase agreements and developer financed improvements by use of use of development and recapture agreements when appropriate, to finance capital improvements.

The costs of financing through the issuance of debt are also affected by the strength of the City's financial position. Bond ratings and investor's bids are influenced by the City's debt management policies. It is the City's goal to maintain debt management policies which

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keep outstanding debt within manageable levels, and which maintain the City's flexibility to issue debt in the case of unusual circumstances beyond the City's control.

DEBT

- The city will continue long-term borrowing to finance capital improvements or projects that cannot be financed from current revenues.
- When the City finances capital projects by issuing bonds or by lease purchases, it will pay back the bonds within a period not to exceed the expected useful life of the project.
- The city will try to keep the average maturity of sales tax revenue or other revenue bonds at or below 20 years.
- The city will try to keep its per capita general obligation debt at less than \$3,000.
- Annual payments of principal and interest on all long-term debt shall not exceed 20% of total City revenue.
- Annual payments of principal and interest on short-term debt shall not exceed 10% of total City revenue.
- Total debt service for general obligation debt will not exceed 20% of total annual locally generated operating revenue.
- Total general obligation debt will not exceed 60% of the statutory debt limit.
- The city will not use long-term debt to finance current operations.
- The city will retire tax and revenue anticipation debt annually and will retire bond anticipation debt within six months after completion of the project.
- The City will maintain good communications with bond rating agencies about its financial condition. The city will follow a policy of full disclosure on every financial report and bond prospectus.

REVENUE

The City's revenue policies are intended to provide guidelines for determining the revenues and revenue sources necessary to provide services. It is the City's goal to maintain a diversified, yet stable, revenue system to protect it from possible short-term fluctuations in any of its various revenue sources. An integral factor in the City's ability to maintain a strong revenue supply is the diversity of its tax base and the health of the area economy. Therefore, the City includes in its policies the goal to encourage economic development within the City.

REVENUES

- The city will try to maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.
- The city will estimate its annual revenues by an objective, analytical process. All projections will be made using analytical techniques designed to produce revenue estimates which are slightly conservative.
- The City will establish all user charges and fees at a level related to the cost of providing the services.
- Each year, the city will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other cost increases.
- The city will automatically revise user fees with the review of the City Council to adjust for the effects of inflation.
- To the degree possible, revenues will be linked to specific expenditure categories to clarify revenue-expenditure relationships.

RESERVES AND CONTINGENCIES

The maintenance of adequate reserves provides the city with flexibility and security and is an important factor considered by rating agencies and the underwriting community when reviewing City debt issuance.

RESERVES

- The City will maintain a reserve sufficient to provide for unanticipated expenditures and unforeseen emergencies. This reserve will be maintained at 50% of the general operating funds.

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- The City will maintain the "City Property Improvement/Replacement Fund" and will appropriate funds to it annually to provide for timely replacement of equipment and City property. The amount in the reserve will be maintained at a minimum of \$50, 000. The minimum amount of \$15,000 will be added annually.
- The City will maintain 6 months working cash for the enterprise funds.
- Upon expiration of revenue debt, debt service reserve accounts shall either be maintained to assist future debt issues or be allocated to fund depreciation and equipment replacement.

INVESTMENT

The City's investment policies are intended to maximize the investment earnings on City funds thereby reducing "Other Source" revenue requirements.

INVESTMENT PRACTICES

- Investments shall be selected under the prudent investor rule. The criteria are safety, liquidity, and value in that order.
- The persons responsible for carrying out the investment operations shall report periodically to the Mayor and Council to provide information and insight into the handling of investments,
- Investments shall be undertaken to attain the best possible rate of return considering risk constraints and cash flow characteristics.
- Funds held for future capital projects shall be invested in investments that will produce enough income to offset inflationary construction costs yet will not be exposed to price fluctuations which may jeopardize the ability to meet stated objectives.
- The City will determine the cash flow needs of all funds on a regular basis. Disbursements, collections, and deposits of all funds will be scheduled to insure maximum cash availability.
- When permitted by law, the City will pool cash from several different funds for investment purposes.
- The city will invest all its idle cash on a continuous basis.

- The City will analyze market conditions and investment securities as needed to determine what yield can be obtained.
- The accounting system will provide regular information concerning cash position and investment performance.
- The City will require regular financial reporting on an annual basis by its financial servicing institutions.