Financial Policy Guidelines

For:

City of Greenville, North Carolina

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FINANCIAL POLICY GUIDELINES – OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practices of the City of Greenville, North Carolina. A fiscal policy that is adopted, adhered to, and regularly reviewed is the cornerstone of sound financial management. Effective fiscal policy:

- Contributes significantly to the City's ability to insulate itself from fiscal crisis,
- Enhances short-term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the City rather than single issue areas,
- Promotes the view of linking long-run financial planning with day to day operations, and
- Provides the City Council, citizens and the City's professional management team a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

There are a few identified policies that are elaborated on and approved by City Council within separate documents (i.e. Cash and Investment Policy and Revenue Collections Policy). To these ends, the following fiscal policy guideline is presented.

CAPITAL IMPROVEMENT BUDGET

1. The City will prioritize all capital improvements in accordance with an adopted capital improvement program (CIP).

2. The City will develop a five-year plan for capital improvements and review and update the plan at least every two years. The City conducts a needs assessment and projects are ranked according to priority. The estimated costs and potential funding sources for each capital project proposal will be identified before it is submitted for approval within the Capital Improvement Program (CIP) budget. The estimated costs will include consideration for inflation; the inflation rate to be determined annually in the budget process and disclosed in the capital budget. Additional projects can be added to the CIP without ranking, but funding for projects added in this manner are subject to normal operating budget constraints.

3. The City will enact a capital budget at least every two years based on the five-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.

4. In general, effective maintenance and operations of capital facilities should be given priority over acquisition of new facilities, unless a cost/benefit analysis indicates to the contrary. In addition, state or federal mandates or new service demands may require acquisition of new facilities even when maintenance needs are not fully met. The City shall have an on-going 10-year facilities improvement plan to respond to maintenance and operational needs timely.

5. The City will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

6. The City will seek intergovernmental assistance to finance those capital improvements that are consistent with the capital improvement plan and City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

7. 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 maintain accurate information on the condition, lifespan and estimated replacement cost of its major physical assets to assist in long term planning.

CAPITAL IMPROVEMENT BUDGET (cont.)

8. The City will project its equipment replacement and maintenance needs for five years and will update that projection at least every two years. Using this projection, a maintenance and replacement schedule will be developed.

9. The City will identify the estimated costs and potential funding sources for each capital project proposed before it is submitted for approval.

10. The City will attempt to determine the most cost effective and flexible financing method for all new projects.

11. The City will match the financing of major capital assets to the debt schedules that closely assign payments with the expected major asset life span to insure intergenerational equity.

12. The capitalization for fixed assets resulting from purchases shall be $5,000. Depending on the category, the threshold may apply to individual or groups of fixed assets. Fixed assets will only be capitalized if they have a useful life of at least two years following the date of acquisition. A physical inventory of capitalized fixed assets will be performed, either simultaneously or on a rotating basis, so that all fixed assets are physically accounted for annually.

VEHICLE REPLACEMENT FUND

1. Biennially, a Public Works team will review all vehicles and place them into categories as described in the vehicle replacement guidelines. The team will consist of the Director of Public Works, Operations Manager, and Fleet Superintendent. This list is reviewed and approved by the City Manager during the budget preparation process. The list is intended to guide the purchase of vehicles/equipment as a part of the City's Vehicle Replacement Program in an efficient and timely manner ensuring the appropriate equipment is purchased.

2. Equipment is evaluated by four criteria: age, mileage, general overall condition, and maintenance cost. Each vehicle is scored on a point system to determine which units are eligible for replacement consideration. Point criteria includes: year of vehicle, mileage, general overall condition and maintenance costs. Any Vehicle that scores a score of 10 or greater will be eligible for replacement.

3. Replacement recommendations will be based on a replacement schedule (vehicles by type) created by the Public Work Department. Any changes to the recommended list must be submitted in writing to the City Manager.

4. City departments will pay quarterly replacement rates to finance the vehicle replacement fund in preparation for future scheduled replacements.

5. The quarterly rates are calculated based on the cost plus inflation rate of the vehicles on hand within the respective departments. The costs divided by the expected useful life will determine what is paid on a quarterly basis to the replacement fund to pay for future replacements. Because the City is forward-funding replacement cost for purchases of future vehicles, an inflation factor of 3-5% per year is included in estimates.

6. The fund balance within the Vehicle Replacement Fund will remain at a minimum level of 8% of the annually funded planned purchases. This level of reserve will go to fund any unexpected occurrences during the year (i.e. accidents, etc.)

DEBT MANAGEMENT

1. The City will confine long-term borrowing to capital improvement or projects that cannot be paid for from current revenues or fund balance except where approved justification is provided.

2. The City will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances in excess of policy targets, and current-year (pay-as-you-go) appropriations.

3. When the City finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be calculated at least every two years and included in the review of financial trends.

4. Where feasible, the City will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.

5. Prior to the issuance of new General Obligation (GO) debt, consideration shall be given to forecasted tax rate requirements, ratio of net GO debt to assessed taxable value, net GO debt per capita, and debt service payments to General Fund operating budget.

6. Direct net debt as a percentage of total assessed value of taxable property should not exceed 2.5%. Direct net debt is defined as any and all debt that is tax-supported.

7. The ratio of direct debt service expenditures as a percent of total governmental fund expenditures will be targeted to remain at or below 10.0% but in any case should not exceed 12.0% with an aggregate direct debt ten-year principal payout ratio target of 60.0% or better.

8. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition. The City will regularly analyze total indebtedness including underlying and overlapping debt.

9. The City may employ municipal finance professionals to assist in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors.

10. The City shall use the Comprehensive Annual Financial Report (the “CAFR”) as the disclosure document for meeting its obligation under SEC Rule 15c2-12 to provide certain annual financial information to the secondary debt market via various information repositories. Continuing Disclosure is required by January 31 of each year.

DEBT MANAGEMENT (cont.)

11. The City will select a method of sale that is the most appropriate in light of the financial market, transaction-specific conditions, City-related conditions, and in accordance with State law.

12. The City will use fixed rate debt in most cases to finance its capital needs; however, the City may issue variable rate debt up to 10-15 % of its total debt portfolio, when necessary.

13. Debt structures that result in significant “back loading” of debt should be avoided.

14. The Financial Services Director will maintain good communication with bond rating agencies

    a. The Financial Services Director will provide periodic updates on the City’s financial condition.
    b. Required disclosure on every financial report and bond prospectus will be followed.
    c. The City may request ratings prior to the sale of securities from the major rating agencies for municipal bond issues.

15. The City will strive to achieve and maintain the highest credit rating awarded by the municipal bond rating agencies.

16. The City may undertake refinancing of outstanding debt:

    a. When such refinancing allows the City to realize significant debt service savings (net present value savings equal to at least 2.0 percent of the refunded par amount) without lengthening the term of refinanced debt and without increasing debt service in any subsequent year; or
    b. When the public policy benefits outweigh the costs associated with the issuance of new debt and any increase in annual debt service; or
    c. When a restrictive covenant is removed to benefit of the City.

17. The Financial Services Director shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements for the federal tax code.

FINANCIAL RESERVES

1. The City will establish and maintain an Insurance Loss Reserve to pay for needs caused by unforeseen emergencies. This reserve will be maintained at no less than $2.0 million.

2. In preparation of the final budget ordinance amendment of any given fiscal year, the city will review budgeted insurance loss, deductibles and premium accounts. If insurance losses, deductibles, and premiums are less than budgeted for any fiscal year, these unspent monies will be transferred to the Insurance Loss Reserve Fund for future unexpected claims, when the City is not operating at the minimum desired reserves.

3. Unassigned Fund Balance as defined by GASB Statement 54, will be the portion of fund balance remaining after all other categories have been determined. These other categories are non-spendable amounts, commitments and restrictions for future expenditures, and required reserves as defined by State statutes. The City will strive to maintain an Unassigned General Fund balance at the close of each fiscal year of at least 14.0% of the total current annual operating budget.

4. The City Council may, from time-to-time, appropriate unassigned fund balances that will reduce unassigned fund balances below the 14.0% threshold for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the City of Greenville. In such circumstances, the City Council will adopt a plan to restore the unassigned fund balance to or above the threshold within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the City, then the City Council will establish a different but appropriate time period.

5. The excess unassigned fund balance may be used to fund one-time capital expenditures or other one-time costs, if those monies have not been transferred to the Capital Reserve Fund. In the event that expenditures exceed revenues within the General Fund during the previous fiscal year, transfers to Capital Reserve will be waived for the current fiscal year.

BUDGET DEVELOPMENT

1. The City will develop the Budget in conjunction with a stated program of performance objectives and measures in which to gauge progress toward meeting those objectives.

2. The Financial Services Department will maintain a system for monitoring the City's budget during the fiscal year. This system will provide opportunity for departments and management to monitor and evaluate monthly financial information on expenditures and performance at both the department and fund level. Included will be provisions for amending the budget during the year in order to address unanticipated needs, emergencies, or compliance with State of North Carolina budgetary statutes.

3. The City shall continue to focus on using one-time, non-recurring, or other special revenues for funding special one-time projects.

4. The City will pursue an aggressive policy seeking the collection of delinquent rescue collections, parking fines, permits and other fees due to the City.

5. Budgeted contributions for non-profit agencies will continue to be limited to no more than 15.0% of the annual Community Development Block Grant ("CDBG") entitlement funds.

6. For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. The City Council shall determine the appropriate cost recovery level when establishing user fees.. Where feasible and desirable, the City shall seek to recover full direct and indirect costs. User fees shall be reviewed on a regular basis to calculate their full cost recovery attainment levels, to compare them to the current fee structure, and to recommend adjustments where necessary.

7. The City shall endeavor to reduce its reliance on property tax revenues by revenue diversification, implementation of user fees, and economic development. The City shall also strive to minimize the property tax burden on Greenville residents.

8. 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 resulting 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 and should help avoid the need for mid-year service reductions.

BUDGET DEVELOPMENT (cont.)

9. The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue updates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of fund balance. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget for recurring expenditures.

10. The tax rate will be set each year based on the cost of providing general governmental services and paying debt service. Consideration will be given to future net revenue requirements for capital improvement project operational expenditure impacts and programmed debt service.

11. Expenditure budgets are reviewed by staff, the City Manager, and City Council prior to adoption and are continually monitored throughout the budget year. Budgeted funds will be spent for the categorical purposes for which they were intended. The annual operating budget ordinance defines staff authorization for operating budget adjustments. No appropriations of the proceeds of a debt instrument will be made except for the purpose for which such debt instrument was issued. Donations will be spent only toward the intent for which they were given.

12. The City will review the financial position of nonprofit corporations or organizations receiving funding to determine the entity's ability to carry out the intended purpose for which funding was granted. For organizations receiving $20,000 or more in any fiscal year, the City may require the nonprofit to have an audit or review performed for the fiscal year in which the funds are received and to file a copy with the City.

13. Annually, the City will update a five-year period forecast (for both revenues and expenditures). This forecast will assist in taking a long-term view of the financial planning of the General Fund and will assist with the preparation of the City's strategic biennial budget.

CASH MANAGEMENT AND INVESTMENT

1. The City's cash management approach consolidates cash balances from all funds to maximize investment earnings (pooling of funds). The accounting for the individual fund cash balances will continue to be maintained separately. Investment income will be allocated to the individual funds based on their respective participation and in accordance with generally accepted accounting principles. Where applicable, this policy also incorporates the following Government Accounting Standards Board Statements:

   ~~I.~~ GASB Statement No. 31 - *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, implemented July 1, 1997. It should be noted that GASB Statement No. 32 amends No. 31 but only as it applies to Section 457 plans.

   II. GASB Statement No. 40 – *Deposit and Investment Risk Disclosure, effective July 1, 2004.*

2. The City has established an Investment Policy to provide safe and responsible guidelines for the investment of idle funds in the best interest of the public while fully maximizing the rate of return.

   ♦ Safety of principal is the highest objective of the Investment Policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to minimize credit risk and interest rate risk.

   ♦ The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the maturity of investments to meet the anticipated cash needs. Since all possible cash demands cannot be anticipated, the portfolio will consist largely of securities with active resale markets.

   ♦ The portfolio shall be designed with the objective of attaining a market rate of return. Return on investment is of secondary importance compared to the above described safety and liquidity objectives. The investments prescribed in this policy are limited to relatively low risk securities; therefore, management anticipates investment portfolio will earn a fair return relative to the risk being assumed.

3. The Investment Committee (IC) consists of the City Manager or designee, Assistant City Manager, Director of Financial Services, and Financial Services Manager. Members of the investment committee will meet three times a year, consistent with the Investment Advisory Committee (IAC) meetings. The IC will meet prior to the IAC meetings to review and discuss agenda topics and performance of the portfolio and make recommendations as appropriate.

CASH MANAGEMENT AND INVESTMENT (cont.)

4. The Investment Advisory Committee consists of three Greenville, NC residents with qualifications related to investing (i.e. bankers, stock brokers, accountants, economists, etc.). These members will be appointed by City Council and will meet three times a year. Members of the Investment Advisory Committee will meet to review the City's current portfolio and to consider any new investment recommendations that the committee has, in order to determine general strategies and monitor results.

5. The Director of Financial Services, or designee, will prepare an investment report quarterly for management. Additionally, quarterly and annual investment reports will be generated and provided to the Investment Advisory Committee.

REVENUE COLLECTIONS

1. The determination of the need for an allowance for doubtful accounts and write-offs will be based on an established method of calculation and computed and adjusted annually.

2. For write-offs of delinquent balances, the policy establishes threshold to permit the timely write-off of all receivable categories. Thresholds vary dependent upon the types and circumstances of the revenue and the related state law.

IDENTITY THEFT PREVENTION PROGRAM

1. This program has been authorized and approved by the City Council in compliance with Federal Trade Commission (FTC) requirements.

2. This written program is designed to protect consumer identity and prevent the theft of customer identity information.

3. Every three years, status of this program and any incidents of identity theft detected or mitigated will be reported to the City Manager and Assistant City Manager and made available to the City Council.

OTHER POST EMPLOYMENT BENEFITS

1. The City will use a deliberative process to ensure the sustainability of any OPEB it offers to employees. The City will carefully evaluate and design benefits to ensure benefits are sustainable.

2. The City Manager will provide assumptions included in the proposed budget related to the actuarially determined Annual Required Contribution (ARC) and the period of time necessary to fully fund the OPEB liability in accordance with the Governmental Accounting Standards Board Statement 45 (GASB 45).

3. The City will provide retiree healthcare pay-as-you-go OPEB costs and will contribute pre-funding deposits with annual increases of $50,000 until it reaches an annual contribution of $500,000 to the City's OPEB Trust which is managed by the state of North Carolina.

4. The actuarial valuation study will be completed by an independent firm biennially to update the calculation of the City's OPEB liability. Additional funding may be required as a result of the study and shall be recommended to the City Council.

COST RECOVERY – GENERAL FUND

1. The City's cost recovery – general fund, is a statement of the guidelines and goals used to assess fees and charges related to the General Fund for various services. These fees will be used to offset the cost of providing these services. This cost recovery policy shall be adopted, adhered to, and regularly reviewed by City Council as part of the biennial budget process. Proposed fees are developed by staff, and reviewed and approved by ---City Council. The policy gives the Financial Services Director limited authority to add, delete, or modify fees to accommodate changes throughout the year.

2. In general, the following factors are weighted by staff in developing proposed fees:

   - Cost to offer services,
   - Number of participants service is directly provided to,
   - Target audience,
   - Affordability for target audience
   - Fees for similar services offered within compatible cities

3. Services are often characterized by the degree they cover the cost to provide the service, or level of cost recovery. Cost recovery models vary depending upon which costs are considered in the formula.

   - Direct Costs – costs associated with the particular service (staff expense, equipment, supplies) that would not occur if the services were not offered.
   - Indirect Costs – Most commonly such costs include facility and utility costs, permanent salaries, insurance, etc.

4. Overall cost recovery for the Department's General Fund budget should be in the area of 49-50%. This is a full cost recovery, against all expenses which occur in the General Fund budget, including direct program costs and indirect costs such as full-time salaries, facility maintenance and operation, and insurance.

5. Having a formal cost recovery policy will provide a tool to assist staff and community leaders with difficult decisions related to prioritizing how General Fund subsidy should be provided to programs and services.

COST RECOVERY – ENTERPRISE FUNDS (OTHER THAN UTILITY ENTERPRISE FUNDS)

1. The City's cost recovery – enterprise fund, is designed to create a long-term financial stability for the enterprise funds, while ensuring that the charges for services are , reasonable and equitable. Because all financial planning occurs in a dynamic environment, cost recovery policies will require periodic revision. The City will review its cost recovery policies prior to preparation of the biennial budget and revise the policy document as often as necessary to maintain consistency with actual cost recovery practices.

   A comprehensive, independent cost recovery review of rates, fees, and charges will be conducted at least every 5 years or more frequently if deemed necessary. As with the cost recovery policy for the general fund, the cost recovery policy for the enterprise fund is adopted, adhered to, and regularly reviewed by City Council as part of the biennial budget.

2. On average cost recovery is too low to recover operating costs, not to speak of providing adequate maintenance of facilities. The mission of the Enterprise Fund is to provide excellent quality services to its customers, while meeting all applicable Federal, State and local laws and regulations. The cost recovery goal for the enterprise fund is to:

   - Fully recover all of the costs to provide these services
   - Rates must be as equitable as possible among customer classifications, and between existing and future customers
   - Financial stability to ensure that rates remain reasonable