

# CITY OF HARRISONBURG, VIRGINIA

## Financial Management Policies



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## **Statement of Purpose**

The City of Harrisonburg has a responsibility to its citizens to account for public funds, to manage its finances wisely, and to allocate its resources efficiently and effectively in order to provide the services desired by the public. The primary objective of establishing Financial Management Policies is to provide a framework within which sound financial decisions may be made for the long term betterment and stability of the City. This financial policy will provide these guidelines and goals to guide the financial practices of the City.

## **Policy Goals**

Financial policies which are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. An effective policy should:

- o Provide council with a means of reaching a consensus of the kind of financial condition wanted for the City.
- o Provide a link between long-range financial planning and current operations.
- o Promote long term financial stability by establishing clear and consistent guidelines.
- o Provide for the total financial picture of the City rather than concentrating on single issue areas.
- o Enhance the City's short term and long term financial credit ability by helping to achieve the highest credit rating and bond rating as possible.
- o Provide a framework for measuring the fiscal impact of government service against established fiscal parameters and guidelines.
- o Insulate the City from fiscal crises.

## **Operating Budget Policies**

1. The annual budget will be prepared consistent with guidelines established by the Code of Virginia and the Code of the City of Harrisonburg.
2. The budget will be structured so that the Council and the public can understand the relationship between revenues and expenditures.
3. The goal of the City is to fund all recurring expenditures with recurring revenues and to use non-recurring revenues only for non-recurring expenses.
4. When revenue shortfalls are anticipated in a fiscal year, spending during the fiscal must be reduced sufficiently to offset current year shortfalls.
5. The City will prepare the capital improvement budget in conjunction with estimates of available revenues in order to assure that the estimated costs and future impact of a capital project on the operating budget will be considered prior to its inclusion in the CIP.
6. The City will develop and annually update a financial trend monitoring system which will examine fiscal trends from the preceding 5 years. Where possible, trend indicators will be developed and tracked for specific elements of the City's fiscal policy.
7. The City will meet annually with the school board to discuss budget needs.

8. The operating budget preparation process will be conducted in such a manner as to allow decisions to be made regarding anticipated resource levels and expenditure requirements for the levels and types of services to be provided in the upcoming fiscal year. The following budget procedures will insure the orderly and equitable appropriation of those resources:
- o Operating budget requests are initiated at the department level within target guidelines set by the City Manager. Priorities of resource allocation to divisions within a department are managed at the department level.
  - o In formulating budget requests priority will be given to maintaining the current level of services. New services will be funded through identification of new resources or reallocation of existing resources.
  - o Proposed program expansions above existing service levels must be submitted as a budgetary increment requiring detailed justification. Every proposed program expansion will be scrutinized on the basis of its relationship to the health, safety and welfare of the City to include analysis of long term fiscal impacts.
  - o Proposed new programs must also be submitted as budgetary increments requiring detailed justification. New programs will be evaluated on the same basis as program expansions to include analysis of long term fiscal impacts.
9. The operating budget is approved and appropriated by the City Council at the department level. Total expenditures cannot exceed total appropriations of any department or fund.
- o The City Manager will submit a balanced budget to the City Council at least 60 days prior to June 30<sup>th</sup> (Chapter VI Section 60 of the City of Harrisonburg Charter).
  - o The City Council will adopt the budget no later than 30 days prior to June 30<sup>th</sup> (Chapter VI Section 61 of the City of Harrisonburg Charter).
  - o Transfers between departments within the same fund can be approved by the City Manager in accordance with city code section 4-2-6.
  - o Encumbered funds for active purchase orders can be carried forward into the next fiscal year with the approval of the City Council.
  - o The City Manager will require monthly budget reports, monthly financial statements, and annual financial reports.
  - o Any amendments to the budget “which exceed one percent of total expenditures shown in the current adopted budget must be accomplished by publishing a notice of the meeting and a public hearing once in a newspaper having general circulation” at least seven days prior to the meeting date (State Code Section 15.2-2507).

## **Capital Budget Policies**

1. The City will approve an annual capital budget as an integral part of its operating budget. The capital budget will be in accordance with an adopted Capital Improvements Program.
2. The City Council will accept recommendations from the Planning Commission for the five-year Capital Improvements Program that are consistent with identified needs in the adopted comprehensive plan.
3. The City will coordinate the development of the capital budget with the development of the operating budget so that future operating costs, including annual debt service, associated with the new capital projects will be projected and included in operating budget forecasts.
4. Emphasis will continue to be placed upon a viable level of “pay-as-you-go” capital construction to fulfill needs in the Council’s approved Capital Improvement Program.
5. Financing plans for the five-year capital program will be developed based upon a five-year forecast of revenues and expenditures.
6. Upon completion of a capital project, any remaining appropriated funds in that project will be returned to the original appropriating fund. Any transfer of remaining funds from one project to another must be approved by the City Council in accordance with city code section 4-2-10.
7. The City will develop an understanding with the School Board regarding the development and coordination of the City’s Capital Improvement Program, which will address the following areas: a) plan for required capital improvements; b) debt ratio targets; c) debt issuance schedules.

## **Asset Maintenance, Replacement and Enhancement Policies**

The City will maintain a system for maintenance, replacement and enhancement of the City's and School Division's physical plant. This system will protect the City's capital investment and minimize future maintenance and replacement costs. The system will include the following:

1. The operating budget will provide for minor and preventive maintenance.
2. Within the Capital Improvement Program, the City will develop a Capital Plant and Equipment Maintenance/Replacement Schedule, which will provide a five-year estimate of the funds necessary to provide for the structural, site, major mechanical/electrical rehabilitation or replacement to the City and School physical plant requiring a total expenditure of \$30,000 or more with a useful life of ten year or more.
3. The City will follow a policy of attempting to fund the repair and replacement of one and one-half (1½) bridges each fiscal year.
4. The City will develop and implement a street paving plan which will result in City streets being repaved on an average of every fifteen (15) years.
5. Approved water and sewer studies will be used as a basis for maintenance/replacement/enhancement schedules.

6. Appropriate vehicle and equipment replacement schedules will be followed.

## **Revenue Policies**

1. Reassessment of real property will be made every year.
2. The City will maintain sound appraisal procedures to keep property values current. The City's goal is to achieve an annual assessment to sales ratio of at least 95% under current real estate market conditions, when the January 1<sup>st</sup> assessment is compared to sales in the succeeding calendar years when that year's is a reassessment year.
3. The City will maintain a diversified and stable revenue structure to shelter it from short-term fluctuations in any one fiscal year.
4. The City will estimate its annual revenues by an objective, analytical process.
5. The City will monitor all taxes to insure that they are equitably administered and collections are timely and accurate.
6. The City will follow an aggressive policy of collecting tax revenues. The percent of current property taxes collected should exceed 96% of the assessment, unless caused by conditions beyond the City's control.
7. The City will where possible institute user fees and charges for specialized programs and services in the city based on benefits and/or privileges granted by the City or based on the cost of a particular service. Rates will be established to recover operational as well as capital or debt service costs.
8. The City will regularly (at least every 3 years) review user fee charges and related expenditures to determine if pre-established recovery goals are being met.
9. The city will identify all intergovernmental aid funding possibilities. However, before applying for or accepting either State or Federal fund, the City will assess the merits of the program as if it were to be funded with local dollars. No grant will be accepted that will incur management and reporting costs greater than the grant.
10. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary increment.
11. The City will attempt to recover all allowable costs, both direct and indirect, associated with the administration and implementation of programs funded through intergovernmental aid. In the case of State and Federally mandated programs, the City will attempt to obtain full funding for the service from the governmental entity requiring that the service be provided.

## Investment Policies

In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the policy of the City that all investable balances be invested with the same care, skill, prudence and diligence that a prudent and knowledgeable person would exercise when undertaking an enterprise of like character and aims. Further, it shall be the policy of the City that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia.

### 1. Investment Objectives

The primary investment objectives, in order of priority, shall be as follows:

a. Safety

The safeguarding of principal shall be the foremost objective of the investment program, and other objectives shall be subordinated to the attainment of this objective.

b. Liquidity

The investment portfolio shall be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as special projects and other operational requirements either known or which might be reasonably anticipated.

c. Return on Investment

The investment portfolio shall be managed with the objective of obtaining no worse than a market rate of return over the course of budgetary and economic cycles, taking into account the constraints contained herein and the cash flow characteristics of the City.

### 2. Allowable Investments

The following investment types are approved for use by the City in the investment of its public funds:

- a. The City will only invest in items which are approved by the Code of Virginia under the Investment of Public Funds Act, Sections 2.2-4500 through 2.2-4518 and the Local Government Investment Pool Act, Sections 2.2-4600 through 2.2-4606. These investments include obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase agreements, ~~and~~ the State Treasurer's Local Government Investment Pool (LGIP) and the State Non-Arbitrage Program (SNAP). The City may also invest in the VML/VACo Virginia Investment Pool (VIP) upon approval of a resolution by City Council.
- b. The City will not invest in derivatives or speculative investments, even if they comply with State Statutes concerning investment requirements.

### 3. Diversification

Investments shall be diversified by (1) limiting overconcentration in securities from a specific issuer or business sector, (2) limiting investment in securities that have higher credit risks, (3) investing in securities with varying maturities and (4) continuously investing a portion in readily available funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

<u>Instrument Type</u>	<u>Maximum Percent</u>
U.S. Treasury Obligations	100%
U.S. Government Agency Securities	100%
Municipal Bonds	20%
Commercial Paper	25%
Repurchase Agreements	35%
Certificates of Deposit (Commercial Bank)	75%
Certificates of Deposit (Savings & Loan Associations)	10%
Money Market Mutual Funds	100%
Virginia LGIP	100%
VML/VACo VIP	100%

#### Diversification of funds to be invested in any one issuer

No limit: FDIC, FSLIC, Collateralized Certificates of Deposits

No limit: U.S. Treasury Obligations and Agencies

Maximum 5% of total portfolio for any Commercial Paper or Municipal Bond.

### 4. Maturity Restrictions

It is recognized that prior to maturity date, the market value of securities in the City's portfolio may fluctuate due to changes in market conditions. In view of this and the City's primary investment objectives of liquidity and preservation of principal, every effort shall be made to manage investment maturities to be preceded or coincide with the expected need for funds. Further the City will only invest in securities which mature in three (3) years or less.

### 5. Additional Requirement, etc.

- a. A list of all individuals authorized to transfer funds or otherwise conduct investment transactions on behalf of the City shall be maintained and communicated to all affected parties.
- b. Bond proceeds shall typically be invested in the SNAP program unless, through consultation with the City's financial advisor, it is advantageous to purchase a separate portfolio of securities designed in such a manner that the corresponding maturities will match the cash flow needs of the project. In all instances, bond proceeds from each bond issue shall be invested separately from other investments for arbitrage rebate and yield restriction compliance pursuant to U.S. Treasury Regulations.
- c. In no event shall the City invest in any instrument that is prohibited by State law. In no event shall the maturities, percent portfolio diversification of instruments or the diversification of funds to be invested in any one issuer be in excess of any limitation imposed by State law.



## 6. Glossary of Terms

**U.S. Treasury Obligations** - Bonds, notes, bills and any other debt security issued by or backed by the full faith and credit of the United States Treasury.

**U.S. Government Agency Securities** - Bonds, notes and any other debt security issued by a federal or federally sponsored agency that is backed by the full faith and credit of the United States Government.

**Municipal Bonds** - Bonds, notes and any other debt security issued by the Commonwealth of Virginia or its agencies and a city, county or other local government in the Commonwealth of Virginia upon which there is no default. The security must have a credit rating of at least AA by Standard & Poor's and/or Aa by Moody's Investor Services.

**Commercial Paper** - An unsecured short-term promissory note issued by U.S. corporations with maturities ranging from 2 to 270 days.

**Repurchase Agreements** - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified date.

**Money Market Mutual Funds** - A mutual fund that invests solely in short-term money market instruments such U.S. Treasury bills, Federal agency obligations, commercial paper, bankers' acceptances and repurchase agreements. The money market mutual fund must maintain a credit rating of AAAM by Standard & Poor's.

**Virginia Local Government Investment Pool (LGIP)** - An external investment pool established by the Commonwealth of Virginia that authorized the Treasury Board to administer the program which has delegated the administrative aspects to the Virginia State Treasurer. The LGIP was designed to offer a convenient and cost effective investment for Virginia public entities. The LGIP is a specialized money market mutual fund investing in short-term securities. The LGIP must maintain a credit rating of AAAM by Standard & Poor's.

**Virginia State Non-Arbitrage Program (SNAP)** - An external investment pool established by the Commonwealth of Virginia and sponsored by the Virginia State Treasury Board. SNAP is designed to provide comprehensive investment management, accounting and arbitrage calculation services for the proceeds of tax-exempt financings of Virginia governments.

**VML/VACo Virginia Investment Pool (VIP)** - An external investment pool established by VML/VACo through the cooperation of Virginia local governments. The VIP was designed to offer an alternative to the LGIP by investing in securities with an average maturity of 1 to 2 years.

### **Accounting, Auditing and Financial Reporting Policies**

1. The City will establish and maintain a high standard of accounting practices in conformance with the Uniform Financial Reporting Manual of Virginia and Generally Accepted Accounting Principles (GAAP) for governmental entities as promulgated by the Governmental Accounting Standards Board (GASB).
2. Regular monthly financial statements and annual financial reports will present a summary of financial activity by governmental funds.

3. An independent firm of certified public accountants will perform an annual financial and compliance audit according to generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; and Specifications for Audit of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia.
4. The City will annually seek the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting.

### **Debt Policies**

1. The City will not fund current operations from the proceeds of borrowed funds.
2. The City will manage its financial resources in a way that prevents borrowing to meet working capital needs.
3. The City will confine long-term borrowing to the funding of capital improvements or projects that cannot be financed by current revenues.
4. To the extent feasible, any year that the debt service payment falls below its current level, those savings will be used to finance one-time capital needs.
5. When the City finances capital improvements or other projects through bonds or capital leases, it will repay the debt within a period not to exceed the expected useful life of the projects.
6. The City's debt offering documents will provide full and complete public disclosure of financial condition and operating results and other pertinent credit information in compliance with municipal finance industry standards for similar issues.
7. Recognizing the importance of underlying debt to its overall financial condition, the City will set target debt ratios, which will be calculated annually and included in the annual review of fiscal trends:
  - o Net general bonded debt as a percentage of the assessed value of real taxable property should not exceed 6%.
  - o Net general bonded debt expenditures as a percentage of expenditures shall not exceed 15% (inclusive of the school board expenditures net of City transfer to the school board).
8. The City's Director of Finance is responsible for monitoring the City's outstanding debt to assure that all post-issuance compliance matters are complied with such as arbitrage rebate calculations, material event notifications, etc.

## **Fund Balance or Reserve Policies**

1. The City does not intend, as a common practice, to use General Fund equity (unassigned fund balance) to finance current operations. The fund balance is built over years from savings to provide the City with working capital to enable it to finance unforeseen emergencies without borrowing.
2. The City will maintain a fund balance for cash liquidity purposes that will provide sufficient cash flow to minimize the possibility of short term tax anticipation borrowing.
3. The unassigned General Fund fund balance at the close of each fiscal year should be equal to no less than 14% of the City's total General Fund budget. Further, an additional 4% should be available for cash liquidity purposes resulting in a total target amount of 18% of the General Fund budget.
4. Funds in excess of the required unassigned fund balance should be considered for "pay as you go" capital expenditures.
5. When restricted and unrestricted fund balance is available to fund a particular expenditure, the City will first expend any restricted fund balance that is available and then in the following order if only unrestricted fund balance is available: (1) committed fund balance, (2) assigned fund balance and (3) unassigned fund balance.
6. Committed fund balance can only be approved, modified or rescinded by formal action of City Council.

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