ROSEVILLE

REQUEST FOR COUNCIL ACTION

Date: 04/18/2011
Item No.: 13.a

Department Approval | City Manager Approval

Item Description: Adopt a Resolution Approving City Financial & Budget Policies

BACKGROUND

As recently as 2008, the City Council adopted a number of financial and budget-related policies that helped guide the development of the annual Budget and the establishment of the annual property tax levy. These policies have traditionally been incorporated in the annual Budget document as a means of maintaining a historical record.

Given the recent change in the composition of the City Council as well as the current economic environment, it is suggested that the Council revisit these policies to determine if any new position or direction is warranted. The applicable financial and budget-related policies include:

a) Operating budget policy
b) Capital improvement policy
c) Debt policy
d) Revenue policy
e) Capital replacement policy
f) Operating fund reserve policy

Each of these policies is included in their current form in the attached resolution.

POLICY OBJECTIVE

The formal approval of financial and budget-related policies is consistent with prior Council actions as well as industry-recommended practices.

FINANCIAL IMPACTS

Not applicable.

STAFF RECOMMENDATION

Staff Recommends the Council review, amend (if warranted), and adopt the attached resolution approving the City's financial and budget-related policies.

REQUESTED COUNCIL ACTION

Motion to Adopt the attached resolution approving the City's financial and budget-related polices.

Prepared by: Chris Miller, Finance Director

Attachments: A: Resolution to adopt the City's financial and budget-related policies.

EXTRACT OF MINUTES OF MEETING OF THE CITY COUNCIL OF THE CITY OF ROSEVILLE

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Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Roseville, County of Ramsey, Minnesota was duly held on the 18th day of April 2011 at 6:00 p.m.

The following members were present:
and the following were absent:

Member introduced the following resolution and moved its adoption:

RESOLUTION ______________

RESOLUTION ADOPTING FINANCIAL AND BUDGET POLICIES FOR THE CITY OF ROSEVILLE

WHEREAS, the City Council of the City of Roseville, Minnesota desires to establish budget and financial policies that provide for the sustainability of City programs, services and infrastructure; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to maintain the City's strong financial condition; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to provide appropriate fiscal and budgeting controls.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Roseville, Minnesota, that the following budget and financial policies be adopted and remain in effect until such time that a subsequent policy action is taken.

Operating Budget Policy

Purpose

The purpose of the City's Operating Budget Policy is to ensure that the City's annual operating expenditures are based on a stable stream of revenues. The policies are designed to encourage a long-term perspective to avoid pursuing short-term benefits at the expense of future impacts. The intent of this policy is to enable a sustainable level of services, expenditures, and property tax levies.

Scope

This policy applies most critically to those programs funded through the property tax, as fluctuations in this revenue source can have substantial impacts.

Policy

- The City will pay for all current expenditures with current revenues. The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses. Specifically, accruing future year's revenues shall be prohibited. Practices to be avoided include postponing expenditures, rolling over short-term debt, and using reserves to balance the operating budget

- The operating budget will provide for adequate maintenance of capital plant and equipment, and for their orderly replacement.

- A proportionate share of the administrative and general government costs incurred by the general operating fund of the City shall be borne by all funds as is practicable. Such administrative charges shall be predetermined and budgeted annually

- New programs or proposals shall be reviewed in detail by City staff and both a policy and fiscal analysis shall be prepared prior to budgetary inclusion, and provided to the City Council for ~~its~~ review

- A request for a program or service expansion or reduction must be supported by an analysis of public policy implications of the change

- A request for new personnel must be supported by an analysis demonstrating the need for the position based on workload measures, comparative staffing levels, and City and department priorities

- A request for purchase of new (additional) capital equipment must be supported by an analysis demonstrating that the value of the benefits of the equipment is greater than the cost of the equipment over its expected life

- As specified under City Code section 103.05 all general purchases and/or contracts in excess of $5,000 must be separately approved by the Council

In recognition of industry-recommended budgeting practices, the City has established the following budget controls:

- The City will maintain a budgetary control system to ensure adherence to the budget

- The Finance Department will prepare regular reports comparing actual expenditures to budgeted amounts as part of the budgetary control system. These reports shall be distributed to the City Council on a periodic basis.

- Department heads shall be primarily responsible for maintaining expenditures within approved budget guidelines that are consistent with approved financial policies

Implementation

The budget as approved meets the above criteria and as a result, the above policies are considered to be implemented

Capital Improvement Policy

Purpose

The purpose of the City's Capital Improvement Policy is to ensure that capital expenditures are well planned and enable the city to replace capital items when needed, without requiring significant fluctuations in the property tax levy.

Scope

All departments and City funds are included in the 10-Year Capital Improvement Program (CIP). The CIP identifies the timing and financing of all capital items.

Policy

- All capital improvements shall be made in accordance with an adopted Capital Improvement Program
- The City will develop a 10-year Plan for capital improvements and update it annually
- The City will coordinate development of the capital improvement budget with development of the operating budget. Future operational costs associated with new capital improvements will be projected and included in operating budget forecasts
- The City will provide ongoing preventative maintenance and upkeep on 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 identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval
- The City will determine the least costly financing method for all new projects
- For future development or redevelopment proposals that require public infrastructure and/or public financing assistance and/or City support services; a fiscal analysis shall be prepared identifying the project sources and uses. The analysis should also demonstrate the costs and benefits of the project. The cost of this analysis shall be borne by the developer.

Implementation

The Capital Improvement Program has been updated to reflect capital expenditures through the next five years.

Debt Policy

Purpose

- To define the role of debt in the City's total financial strategy so as to avoid using debt in a manner that weakens the City’s overall financial condition.

- To establish limits on the amount of City debt which will allow for manageable debt service costs.

- To maintain the best possible Moody's and Standard and Poor's credit rating

Policy

- The City will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues. The City shall not use debt for the purchase of vehicles and other rolling stock

- When the City finances capital projects by issuing bonds, 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 general obligation bonds at or below ten years

- The City will strive to keep the direct debt per capita and direct debt as a percent of estimated market value at or below the median set out by the credit rating agencies

- Total general obligation debt shall not exceed two percent of the market value of taxable property as required by State law

- The City shall not use debt for current operations

- The City will maintain good communications about its financial condition with credit rating agencies

- The City will follow a policy of full disclosure on every financial report and bond prospectus

- Refinancing or bond refunding will only be undertaken when there is significant economic advantage to the City, and when it does not conflict with other fiscal or credit policies

- The maintenance of the best possible credit rating shall be a major factor in all financial decisions. For the purposes of issuing debt, bond rating categories shall be used as a means of assessing the City’s financial condition.

Implementation

The debt management section of this approved Budget and Capital Improvement Program demonstrate compliance toward achieving the city's debt policy.

Revenue Policy

Purpose

- To provide a diversified and strong set of revenues to ensure a stable revenue system for City programs and services

- To match revenues with similar uses to ensure adequate funding for the various City services and programs over the long-term

Policy

- The City will try to maintain a diversified and stable revenue system and to shelter it from short run fluctuations in any one revenue source

- Absent any outside legal restrictions, all Federal, State, County, or other governmental financial aids, should be formally designated, by resolution, towards a specific program or service. General purpose aids shall only be used for capital or non-recurring expenditures and not for on-going operations.

- 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, and will set those fees as appropriate. Fees will be established and adopted annually on the Fee Schedule.

- The City will set fees and user charges for each enterprise fund, such as water and sewer, at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual straight life depreciation of capital assets and each fund's share of the administrative and general government costs incurred by the general operating fund

- Absent public policy reasons to the contrary, the City will set fees and user charges for non-enterprise funds, at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual straight life depreciation of capital assets

Implementation

The Budget accurately allocates the revenues and expenditures of City programs and services.

Capital Replacement Policy

Purpose

The Roseville City Council has set in place a stable funding mechanism for much of the city's infrastructure. The intent of the Council in having Replacement Policies is to provide for easing the burden on both present and future taxpayers and to assure the replacement of the city's infrastructure in a manner that is both fiscally and operationally prudent.

The primary purpose of this policy is to have specific resources set aside on a periodic basis, to create funding for the major equipment and infrastructure needs of the community, without encountering major tax increases for maintenance and replacement.

It is not the intent of the City Council to fund major new facilities, which have not had the original funding established either through tax increment, general taxes or other such sources. The replacement funds are expected to be only for replacement purposes. (See the Implementation section below)

Policy

- The City will establish a General Vehicle Replacement Fund and a Fire Vehicle Replacement Fund. The City will appropriate funds to them annually to provide for timely replacement of vehicles. The amount will be maintained at an amount equal to the accumulated depreciation including annual fund interest earnings to provide for vehicle replacement

- The City will establish a General Plant Replacement Fund to provide for non-vehicular equipment replacement; i.e., mowers, tools, etc. Funding should equal the amount of accumulated depreciation recorded on all general governmental equipment including annual fund interest earnings

- The City will establish a Building Replacement Fund, and will appropriate funds to it annually to provide for timely maintenance of all buildings and plants supported by general governmental funding. Maintenance includes major items such as roof repair and HVAC replacement.

- The City shall establish a Street Infrastructure Replacement Fund to provide for the general replacement of streets and related infrastructure throughout the community. The funding should equal the amount of accumulated depreciation recorded on all general governmental streets and related structures including annual fund interest earnings. The annual MSA capital allocation, will be included as part of the source of funds for computing the adequacy of this fund. This Fund has been formally categorized by the Council as a permanent fund, whereby only the interest proceeds are used each year for the stated purpose. The original principal amount remains intact

- The City shall establish a Park Improvement Fund to provide for the general replacement of parks and related infrastructure throughout the community. The funding should equal the amount of accumulated depreciation recorded on all park system assets.

- Within each enterprise fund, the City shall establish a funding mechanism to provide for the general replacement of related infrastructure throughout the community. The funding should equal the amount of accumulated depreciation recorded on all enterprise fund system assets.

- From time to time the City Council shall establish additional replacement funds as the need and funding ability becomes available

- The City should periodically review and follow industry-recommended replacement schedules for all City capital assets.

<u>Implementation</u>

The City shall use replacement funds to assist in the replacement of equipment, vehicles, and building maintenance. New equipment or buildings are to be funded from new dollars, unless they are designated to replace currently depreciated assets. Funds from the replacement funds may be used up to the amount available from depreciation of the replaced asset. Any additional funding shall be from new sources.

Operating Fund Reserve Policy

Purpose

- To provide a cushion against unexpected revenue and income interruptions

- To provide working capital by ensuring sufficient cash flow to meet the City's needs throughout the year

Policy

- The City will maintain a general fund reserve of 50% of the general fund's total annual operating budget. This ensures that the City has adequate funds on hand to provide for operations between bi-annual property tax collection periods. Any surplus beyond the required general fund reserve may be transferred to another reserve fund with a funding shortfall

- The City will strive to create a reserve in the Recreation Fund to equal 25% of the annual recreation budget. This reserve will provide a cash flow cushion and reduce the inter-fund borrowing expense to the Recreation Fund. Because of more frequent cash inflows, a 25% reserve will be adequate to support the daily cash needs of the fund

- The Community Development Fund is supported solely by building permit fees and charges. Because the economic environment has a major effect on this Fund, a fund balance of 25-50 % of the annual budget is a reasonable target. It is expected that as economic downturns take place, this reserve will provide for a transition period during which the Council will be able to assess and to better match operations with the economic need

- City enterprise funds shall have operating cash reserves sufficient to provide for monthly cash flow, and for a reasonable level of equipment and infrastructure replacement. Major reconstruction or system upgrades, may need to be funded from enterprise revenue bonds. Annual utility rate reviews will be made in regard to projected operating expenses and capital improvements. The Council will, on an annual basis, establish rates in accordance to operating cost recovery and the projected capital improvements

- All other operational funds e.g. License Center, Information Technology, etc are expected to operate with positive reserve balances of 10-25% of the annual operating budget. Each operational fund shall be reviewed on an annual basis to assure the fund balance is in line with the fund's objectives

Implementation

All fund reserves shall be reviewed each year at the time of the annual budget preparation for the purpose of complying with this policy. Budgets shall be prepared on an "All Resources" basis, so that the City Council and Community can readily discern the current and projected management of all reserves.

The motion for the adoption of the foregoing resolution was duly seconded by member and upon a vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

WHEREUPON, said resolution was declared duly passed and adopted.

State of Minnesota)
) SS
County of Ramsey)

I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State of Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of minutes of a regular meeting of said City Council held on the 18th day of April, 2011, with the original thereof on file in my office.

WITNESS MY HAND officially as such Manager this 18th day of April, 2011.

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William J. Malinen, City Manager

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