

City of Florence Fiscal Policies

Purpose

The City of Florence is committed to responsible fiscal management through financial integrity, prudent stewardship of public assets, planning, accountability, and full disclosure. The broad purpose of the Fiscal Policies is to enable the City to achieve and maintain a long-term stable and positive financial condition. These policies are adopted by the City Council as the basic framework for overall financial management of the City, to guide day-to-day and long-range fiscal planning and decision making, and to achieve the following general financial goals:

1. Provide an adequate financial base to sustain the desired level of municipal services to maintain the social wellbeing and physical conditions of the City.
2. Deliver cost effective and efficient services to citizens.
3. Provide and maintain essential public facilities, utilities, and capital equipment.
4. Protect and enhance the City's credit rating so as to obtain the lowest cost of borrowing and assure taxpayers and the financial community that the City is well managed and financially sound.
5. Provide the financial stability needed to navigate through economic downturns, adjust to changes in the service requirements of the community, and respond to other changes as they affect the City's residents and businesses.
6. Adhere to the highest standards of financial management and reporting practices as set by the Government Finance Officers Association (GFOA), the Government Accounting Standards Board (GASB), and other professional standards.
7. Fully comply with finance related legal mandates, laws, and regulations.

To achieve these goals, fiscal policies generally cover areas of revenue management, operating and capital budgeting, financial planning and forecasting, investment and asset management, debt management, pension funding, accounting and financial reporting, reserves, and internal controls. These policies are reviewed annually by management and City Council, and amended as necessary by resolution.

Policies are addressed in ten areas:

- **Revenue**, which deals with taxes, user fees and other revenues by which the City generates income to fund programs and services.
- **Operating expenditures**, which relates to budgeting guidelines.
- **Expenditure control**, which addresses the City's efforts to ensure spending is consistent with the City's fiscal plans.
- **Capital equipment and improvements**, which relates to establishing five-year capital equipment and improvement plans for all major equipment and infrastructure systems provided and maintained by the City.
- **Accounting and financial reporting**, which relates to accounting and reporting financial transactions and preparing reports.
- **Financial planning**, addresses longer term financial forecasting to help inform decisions.
- **Debt**, which addresses long-term financing of the City's capital needs and maintaining its bond rating.
- **Pension funding**, addresses the funding policies of the City's pension obligations.
- **Reserves**, establishes minimum working capital balances, required reserves, and operating contingency as needed for routine cash flow and responding to unexpected expenditures or increases in service delivery costs.
- **Management of fiscal policy**, sets forth the administration of fiscal policies on a continuing basis.

1. Revenue Policies

1.1. The City will strive for and maintain diversified and stable revenue sources to prevent undue or unbalanced reliance on any one source of funds. Revenue diversity will also reduce risk to the City from short-term fluctuations in any one revenue source.

1.2. Significant one-time and or temporary revenues will not be used to fund continuing programs and services, but rather to fund one-time expenditures or to fund reserves.

1.3. The maximum allowable system development charges (SDC's), for each of the public infrastructure systems the City operates and is allowed by state law to impose, shall be determined on a periodic basis (approximately every five years).

1.3.1. The Council will determine what amount of SDC's to impose.

1.4. The City will promote the use of users' charges in lieu of property taxes and subsidies from other non-obligated (i.e., generally available) City funds, for services that can be identified and where costs are directly related to the level of service provided.

1.4.1. Charges for providing utility services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the City's utility funds, including operating contingency, reserve requirements, and capital replacement. Consideration will be given to return on investment and existing and or anticipated debt to ensure debt coverage ratios are sufficient to meet or exceed requirements of lenders and rating agencies to maintain desired credit rating.

1.4.2. It is the City's intent to recover a greater percentage of costs associated with performing building permit and inspection activities. As of fiscal year 2022, fees and charges for these services are insufficient to fully fund costs for these activities. City staff will evaluate the delivery of these services to identify cost savings. Results of these efforts will be presented to the City Council prior to consideration of potential fee and charge increases.

It is the City's intent to fully recover costs associated with performing planning related activities. As of fiscal year 2022, the estimated cost recovery for planning related activities is approximately 100%. City staff will evaluate and implement changes to land use processes to gain efficiencies measure results, and report findings to the City Council prior to consideration of potential increases to fees and charges for planning related services.

1.4.3. Other Reimbursable work performed by the City (full labor costs, overhead, contracted services, equipment, and other indirect expenses) shall be billed at total actual or estimated total actual cost.

1.4.4. Charges for services shall accurately reflect the total actual or estimated total cost of providing the service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. City staff shall create and maintain a schedule of current fees, indicating when the fees were last reviewed and/or recalculated.

1.5. The City shall diligently pursue collection of delinquent accounts. When necessary, discontinuing service, small claims court, collection agencies, foreclosure, liens, and other methods of collection such as imposing interest penalties, collection and late charges, may be used.

1.6. All potential grants that require matching funds, on-going resource requirements, or include new or additional continuing compliance requirements shall be evaluated and considered before submittal o the application. Grant applications will be approved as follows prior to their submittal: a) by the City Manager for grants that require matching funds up to the amount of the City Manager's spending authority, and b) by the City Council for grants with matching requirements above the City Manager's spending authority. The City Council will be provided the evaluation with the request for their acceptance of the grant.

1.7. Revenues will be estimated realistically and prudently. Revenues of a volatile nature will be estimated conservatively. The City will estimate its

revenues by an objective, analytical process using best practices as defined by the GFOA.

2. Operating Budget Policies

2.1. The City will prepare a biennial budget guided by City Council goals and work plan to accomplish those goals. Budget development will be coordinated with all departments and will incorporate GFOA recommendations relative to budgeting for results and outcomes.

2.1.1. The amount of funding available will be determined for each fund. The budget will be built on expected revenues. This includes base revenues, any new revenue sources, and the potential use of existing resources.

2.1.2. Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.

2.1.3. Budget available dollars to the most significant programs and activities. The objective is to maximize the benefit of the available resources.

2.2. The City shall maintain an automated accounting system to monitor expenditures and revenues, relative to budget, on a monthly basis, with a thorough analysis and adjustment (if required) no less than quarterly.

2.3. All budgetary procedures will conform to existing state regulations. Oregon budget law requires each local government to prepare a balanced budget and Oregon Administrative Rules (OAR's) state: 1) the budget must be constructed in such a manner that the total resources in a fund equal the total of expenditures and requirements for that fund, and 2) the total of all resources of the entity must equal the total of all expenditures and all requirements for the entity.

2.4. The budget process will be coordinated so that major policy issues and department goals and objectives are identified and incorporated into the budget.

2.5. The cost allocation plan will be reviewed and updated annually and serve as the basis for

distributing general government and internal service costs to other funds and capital projects.

2.6. The City Council shall adopt the budget for each fund, at the organizational unit or program level as a total dollar amount for all appropriations except transfers, contingency, unappropriated ending fund balance, and reserves, which shall be stated separately.

2.7. Long-term debt or bond financing may be used for the acquisition of land, capital improvements, vehicles, and equipment with a cost greater than \$100,000, if current and or existing resources are insufficient. Long-term debt or bond financing shall not be used to finance current operating expenditures.

2.8. Every City fund, organizational unit, or program or activity shall start each biennium's budget cycle with no predetermined appropriation amount. Budget appropriation decisions and the allocation of resources shall be based on direction provided by the City Council and implementation of that direction by the City Manager.

2.9. The City will submit the Adopted Budget Document to the GFOA to obtain the Distinguished Budget Presentation Award.

2.10. A budget calendar will be prepared at the beginning of each budget cycle..

3. Expenditure Control Policies

3.1. Expenditures will be controlled through appropriate internal controls and procedures. Management must ensure expenditures comply with the legally adopted budget. Each Department or Division Manager or Director will be responsible for the administration of their organizational unit or program budget. This includes accomplishing the goals and objectives incorporated into the budget and monitoring each organizational unit or program budget for compliance with spending limitations.

3.2. The City Manager is to administer budgetary expenditure control at the appropriation level. Any increase in budget appropriation requires City Council approval.

3.3. All purchases of goods and services must comply with the City's Purchasing Policies, guidelines and procedures, and with State laws and regulations.

3.4. All compensation planning and collective bargaining will include analyses of total cost of compensation, which includes analysis of salary increases, health benefits, pension contributions, and other fringe benefits. City management will only propose operating personnel costs that can be supported by continuing operating revenues.

3.5. City staff shall make every effort to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost effective and efficient. Expenditures reducing future costs will be encouraged.

4. Purchase Authority Policies

4.1. The City Manager or the City Manager's designee may enter into purchase agreements or contracts not exceeding \$75,000 without additional authorization of the City Council or Contract Review Board.

4.2. Department directors and managers are authorized to make purchases up to \$25,000.

5. Capital Improvement Policies

5.1. Biennially, the City will approve a five-year Capital Improvement Plan (CIP), congruent with the adoption of its biennial budget. The CIP shall provide details on each capital project: its estimated costs, sources of financing, and a description, including a statement identifying: a) the needs, conditions, and circumstances that have caused the project's creation, b) the expected results if the project is approved and implemented, and c) future annual costs of the project.

6. Accounting and Financial Reporting Policies

6.1. The City shall establish and maintain its accounting systems according to generally accepted accounting practices and shall adhere to generally accepted accounting principles and standards promulgated by the GFOA and Government Accounting Standards Board (GASB).

6.2. An annual audit shall be performed by an independent public accounting firm, duly authorized by the State of Oregon to practice as such, which will issue an opinion on the annual financial statements, along with a management letter identifying areas needing improvement, if necessary.

6.3. Full disclosure shall be provided in the financial statements and bond representations.

6.3.1. Upon request, all departments will provide notice of all significant events and financial and relate matters to the Administrative Services Director for the City's annual disclosures to the municipal markets as required by SEC Regulation 15-C-2-12. Full disclosure will be provided in the financial statements and bond representations. Significant events include delinquencies and defaults related to the City's bonds, adverse tax opinions, or events affecting the tax-exempt status of bonds, the release, substitutions, or sale of property securing repayment of bonds and other events having a significant impact on the City's finances and outstanding bonds. The Administrative Services Director will notify all Nationally Recognized Municipal Securities Information Repositories of these significant events.

6.3.2. The City's asset capitalization policy is to capitalize and depreciate assets greater than \$10,000 with a useful life beyond one year. Capital assets costing less than \$10,000 or having a useful life of one year or less will be treated as operating expenditures.

6.4. In conjunction with the annual audit, an Annual Comprehensive Financial Report (ACFR) will be prepared and submitted to the GFOA for consideration of its Award for Excellence in Financial Reporting.

6.5. Up-to-date accounting and budgeting information is available online to all management and authorized support staff. Quarterly budget to actual reports showing the current status of revenues and expenditures shall be prepared and distributed to appropriate legislative, staff and management personnel in a timely manner and made available for public inspection.

7. Financial Planning Policies

7.1. The Administrative Services Department, collaborating with other departments, will prepare a long-term financial plan for each fund to promote responsible planning for the use of resources. The long-term financial plans will include projected revenues, expenditures, and reserve balances for the next five years for all funds.

7.2. The City's financial plans should be strategic, reflecting the City Council and community priorities for service while providing resources that fund desired service levels.

7.3. Long term projections of revenues and expenditures will be based upon disclosed assumptions, and prepared consistent with the best practices established by the GFOA.

7.4. Long-term financial plans will be integral to the development of the biennial budget.

8. Debt Policy

8.1. The City may use debt proceeds to finance costs associated with capital infrastructure, equipment, vehicles, and other purposes that provide long-term benefits to the community, i.e., benefits that extend more than one year.

8.2. Capital projects financed through the issuance of bonds shall not be financed for a period which a) exceeds the expected useful life of the project or b) is less than five years.

8.3. Financing for non-capital purposes shall not extend beyond the amortization period available for the respective type of obligation, e.g., retirement unfunded liabilities include an amortization period of twenty-five years.

8.4. The Administrative Services Director will structure all debt issuances and oversee the ongoing management of all City debt. Debt includes general obligation bonds, lease purchase obligations, revenue bonds, special assessment obligations, promissory notes, equipment financing agreements, and any other contractual arrangements that obligate the City to make future principal and interest payments.

8.5. No debt shall be issued for which the City has not identified specific revenue sources sufficient for repayment. Such revenue sources can include internal sources, such as charges to personnel costs, that are transferred to a debt service fund for debt repayment. The Administrative Services Director shall prepare an analysis of the source of repayment prior to issuance of any debt.

8.6. The City will not use long-term debt to fund current operations, to balance the budget, or to fund projects that can be funded from current resources, unless the use of debt is otherwise determined to be in the best interest of the City.

8.7. The City may utilize short-term debt or inter-fund loans as permitted, to cover temporary cash flow deficiencies due to timing of cash flows, such as may result from delay in receipting grant proceeds or other revenues and delay in issuance of long-term debt.

8.8. When issuing long-term debt, the City will ensure that the debt is soundly financed by:

8.8.1. Incurring debt only when necessary for capital improvements too large to be financed from current available resources,

8.8.2. Ensuring that capital projects financed through long-term debt shall be financed for a period not to exceed the useful life of the project,

8.8.3. Determining that the benefits of the project financed exceed the cost of financing including interest costs, and

8.8.4. Analyzing the source of repayment, debt coverage ratios, and the impact of debt service on annual fixed costs prior to issuance of long-term debt.

8.9. All bond issuances, promissory notes, and capital leases will be authorized by resolution of the City Council.

8.10. The City shall maintain its bond rating at the highest level fiscally prudent, so that future borrowing costs are minimized and access to the credit market is preserved.

9. Pension Policies

9.1. The City participates in the State of Oregon Public Employees Retirement System (PERS). The City will fund its required pension contribution requirements timely.

10. Reserve Policies

10.1. The City shall maintain adequate working capital reserves in all funds.

10.1.1. The general fund shall maintain sufficient working capital to allow the City to adequately fund operations until property taxes are received in November of each year, without borrowing.

10.1.2. The City's utility funds shall maintain at a minimum, working capital balance sufficient for sixty days operating expenses, together with an adequate emergency repair reserve and required debt service reserves.

10.1.3. The City's internal service funds shall maintain at a minimum, working capital balance sufficient for thirty days operating expenses and any required debt service reserves.

10.1.4. The City's debt service funds shall maintain adequate working capital to pay required debt service without borrowing and fund required debt service reserves.

10.1.5. The City's other operating funds shall maintain a minimum working capital balance sufficient for sixty days operating expenses and any required debt service reserves.

10.1.6. The City shall establish a contingency budget to provide for unanticipated expenditures of a nonrecurring nature. The contingency shall be a minimum of five percent (5%) of a fund's operating expenditure estimates for the fiscal year. This policy does not apply to debt service, trust and agency, capital projects, serial levy, temporary or certain special purpose funds.

10.2. The City may use reserves on a one-time basis for purposes described above. In the event that reserve funds are presently or decrease to levels below the levels desired by this policy, City management will develop a plan to restore reserves to the desired levels.

11. Management of Fiscal Policy

11.1. Fiscal policies shall be reviewed biennially (in alignment with the budgeting process) by the City Council and adopted by resolution. changes in policies shall be approved by the City Council and adopted by resolution.

11.1.1. The City Manager or designee shall prepare a report explaining the substantive impact of all recommendations and their impact on the City's operations, service levels, and finances.

11.1.2. The Audit Committee shall review the City's fiscal policies annually.

11.2. The City Manager shall implement fiscal policies and monitor compliance.

11.2.1. If the City Manager discovers a material deviation from policy, he/she shall report it in writing to the City Council in a timely manner.

11.2.2. As a part of the City's annual budget document, the City Manager's budget message shall identify: a) all major changes in policy since the previous budget year and b) any material variations from policy in the ensuing year's budget.

Definition of Terms

Appropriation – Provides the local government with legal spending authority throughout the budgeting period. ORS 294.456(3)

Audit Committee – Group of individuals assigned specific responsibility for addressing issues related to the independent audit of the financial statements on behalf of the entity under audit.

Balanced Budget – A budget where resources equal requirements in every fund.

Budget Committee – is a committee consisting of the City Council (Mayor and four City Councilors) and an equal number of citizen members appointed by the City Council.

Budget Officer – The Budget Officer is appointed by the governing body or designated by charter. The Budget Officer must prepare and present a balanced budget to the Budget Committee.

Capital – Anything that confers value or benefit to its owner, such as land, equipment, buildings, or financial assets.

Capital Improvement Plan (CIP) – The CIP is a schedule of capital projects including estimated cost and timing. There is a separate CIP for each major infrastructure system in the City, e.g., water, streets, sidewalks, storm water, wastewater, information technology, City Facilities, and vehicles.

City Council – The legislative body of a city.

Contingency – An expenditure category in an operating fund for the purpose of items that cannot be specifically identified at the time the budget was prepared.

Contract Review Board – The Florence City Council is designated as the “Local Contract Review Board” under the State of Oregon Public Contracting Code per Florence City Code Section 1-8-1.

Debt Coverage Ratio – represents the ratio of “net revenues” available to pay scheduled debt service. A ratio of 1.0 reflects “net revenues” equal to scheduled debt service. A ratio greater than 1.0 reflects “net revenues” in excess of scheduled debt

service, and a ratio less than 1.0 indicates “net revenues” is less than scheduled debt service.

Expenditures – Decreases in current financial resources.

Fund – Fiscal accounting entity with a self-balancing set of accounts that are segregated for the purpose of carrying on specific activities or attaining certain objectives.

Government Accounting Standards Board (GASB) – Ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

Government Finance Officers Association (GFOA) – An association of public finance professionals whose purpose is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

Internal Controls – Integrated set of policies and procedures designed to assist management in providing the continuous assessment of risk.

Object Classification – Within each organizational unit or program, the estimates of line-item expenditures must be detailed by the following classifications: personnel services, materials and services, and capital outlay, special payments, debt service, transfers, contingency, reserves, and unappropriated fund balances.

Oregon Administrative Rules (OAR) – The official compilation of rules and regulation, having the force of law in the State of Oregon. It is the regulatory and administrative corollary to the Oregon Revised Statutes.

Oregon Budget Law – Found in Oregon Revised Statutes 294.565, governs local government’s budgetary processes and preparation in Oregon.

Oregon Revised Statutes (ORS) – Codified laws of the State of Oregon incorporating all laws and rules of civil procedure enacted by the Legislative Assembly.

Organizational Unit – Administrative subdivision of the local government which is responsible for specific services, functions, or activities. They are usually identified as departments, divisions, or offices (e.g., Police, Administrative Services, or Public Works).

Program – A group of related activities aimed at accomplishing a major service or function. Programs could include services such as public safety, streets, water and wastewater.

Reserves – An amount set aside for “future expenditure”, usually for expenses anticipated in a future budget period.

Revenue – Resources of a fund obtained through charges for services, grants, etc.

System Development Charges (SDC's) – One-time fees charged to help pay for facilities (street and sewer systems) required to meet growth-related needs of the City. SDC's are paid at the time a development permit is issued.

Transfers – A transfer of funds from one fund to another.

Unappropriated Ending Fund Balance – Used to provide a cash or working capital balance to start the next fiscal period following the one being budgeted. This amount is generally unavailable to spend in the budget period for which it is budgeted.

Working Capital – Funds available to meet obligations.