

# FY 2009

# FINANCIAL POLICIES

\*Some of the below are required by law (state, City charter, ordinance etc).

\*\*The underlined are policies requested for consideration

## Accounting, Auditing & Financial Reporting Policies

- ❖ Financial statements will be prepared in accordance with Generally Accepted Accounting Principles (GAAP).
- ❖ An annual audit will be performed by an independent public accounting firm in accordance with Generally Accepted Accounting Principles as outlined by Governmental Auditing, Accounting, and Financial Reporting (GAAFR). The independent auditors' opinion will be included as part of the Comprehensive Annual Financial Report (CAFR).
- ❖ The budget document shall serve as the annual financial plan for the City. It will serve as a policy document for the City Council to implement their goals and objectives. The budget shall provide the administration with the resources necessary to provide the level of service determined by City Council.

## Revenue Policies

- ❖ The City will maintain sound **appraisal** procedures and practices to reflect current property values.
- ❖ The City will strive to minimize the impact of **property tax** financing for City services by seeking alternative financing sources such as grants, user fees, and enhancement of the property tax base.
- ❖ The City will strive to maintain diversified, **stable sources of revenue** to improve the ability to handle fluctuations in individual sources in order to protect essential service delivery.
- ❖ The City will **project its annual revenues** based upon historical data, county, state, and national economic indicators, and new statutes.
- ❖ To emphasize and facilitate **long-range financial planning**, the City will maintain projections of major revenue sources for the succeeding six-years.
- ❖ The City will **finance essential City services** that have a citywide benefit from revenue sources generated from a broad base, such as property taxes or state shared revenues.

- ❖ The City will annually **review fee structures** in an effort to cover the actual cost of the service provided.
- ❖ The City will attempt to **fund all current expenditures with current revenues**, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or by rolling over short-term debt.
- ❖ The City will avoid using temporary (one-time) revenues to fund continual ongoing services. **One-time revenues shall be used only for temporary (one-time) expenditures.**
- ❖ The Water & Sewer Funds of the City will establish and maintain **revenues that support the full (direct and indirect) cost** of the service provided including operations, overhead, debt service, and infrastructure replacement.
- ❖ The cash equivalent to the amount of W&S **annual depreciation** along with annual capital and lateral revenues (non-operating) will be **transferred** from the W&S Operating Fund to the W&S Capital Fund each year.
- ❖ The total City millage rate will not be increased without the vote of the residents.

## Expenditure Policies

- ❖ A **long-term outlook** will be performed annually to provide projections of the City's future financial capacity, given long-range assumptions, obligations, project schedules, and objectives for a minimum of six-years into the future.
- ❖ Funding of Services - **Adding or expanding service programs** is only considered when (1) a new identifiable revenue source(s) can support all of the ongoing and additional costs to be incurred; (2) when the requesting department/cost center can identify an existing service that can be in turn eliminated; or (3) when the new program is mandated at the Federal or State level.
- ❖ The City will avoid any long-term budgetary practices that balance current expenditures at the expense of future years' revenues.
- ❖ Administrative Overhead Allocation will be used to allocate direct and indirect administrative costs of the General Fund to the appropriate user funds (Special Revenue, Enterprise, and Internal Service Funds). The General Fund's administrative department/cost centers that are allocated to user departments include City Council, Mayor's Office, Clerk's Office, Accounting, Human Resources, Treasury, and Communications.
- ❖ The General Fund shall Transfer Out monies to support various operations and capital costs in other funds. Major Road Fund shall receive 0.1000 mill; Capital Improvement Fund shall receive 0.1000 mill; Police Fund shall receive enough monies to balance its expenditures after the two dedicated millages are levied; Facilities Fund shall receive the equivalent of the common areas costs; Drain

Fund shall receive monies sufficient to cover the annual operating budget; and the Local Street Fund shall receive a minimum of \$3.5 million.

- ❖ With the approval of City Council in the appropriations act (budget resolution), the Mayor is permitted to perform **budget adjustments** within limits between line-items within a fund. Adjustments are intended to reduce the amount of insignificant budget amendments and allows for more efficient and uninterrupted City operations. In no case may total expenditures of a particular fund exceed that which is appropriated by the City Council without a budget amendment. Budget adjustments shall not conflict with the City Council's expressed programs or policies. Adjustments are reported to City Council on a quarterly basis.

## **Fund Balance Policy**

- ❖ The City will strive to maintain working capital or fund balances of at least 15% - 20% of annual operating expenditures within the General Fund, Special Revenue Funds, and Enterprise Funds. Debt and Enterprise Funds will also maintain reserves in accordance with ordinance requirements, any applicable bond covenants, and future capital needs. These reserve policies are considered to be the reasonable level necessary to maintain the City's credit worthiness and to adequately provide for:
  - Protection against economic uncertainties, local disasters, and other financial hardships including downturns in the local, state, or national economy
  - Contingencies for unforeseen operating needs or unfunded mandates
  - Cash flow requirements
  - Future infrastructure replacement and/or capital improvements
  - Insulation against other risks specific to Rochester Hills (voted millage expirations as opposed to continuous charter millage, lack of diversified tax base, future obligations, loss in excess of insurance coverage, contractual service increases-OCSO)

## **Investment Policy**

- ❖ General monies (non-trust) held by the City of Rochester Hills will be invested in accordance with State of Michigan Public Act 20 of 1943, as amended, and in accordance with the cities official adopted policy.

## **Debt Policies**

- ❖ The City will remain under the **legal debt limits** of the Public Acts of the State of Michigan and the City Charter
- ❖ The City will consider the use of **debt financing only for one-time capital** improvement projects and only under the following circumstances:
  - When the terms of financing will not exceed the useful life of the project

- When identified revenue resources will be sufficient to service the long-term debt obligations
- ❖ Debt financing will not be considered appropriate for any recurring purpose such as current operating or maintenance expenditures.
- ❖ Capital improvements will be financed primarily through general tax levies, user fees, service charges, special assessments, revenue bonds, or other self-supporting bonds when benefits can be specifically attributed to the users of the facility.
- ❖ The City will strive to maintain and improve upon its current **AA+ bond rating** from Standard & Poors and AA+ bond rating from Fitch and will continue to maintain a good relationship with all bond rating agencies.
- ❖ The City will use the following criteria to evaluate “**pay-as-you-go**” versus “**long-term financing**” in funding capital improvements:

*Factors that favor “pay-as-you-go”:*

- Current revenues or adequate fund balance levels are available
- Project phasing can be accomplished
- Increased debt levels would adversely affect the City’s credit rating
- Market conditions are unstable

*Factors that favor “long-term financing”:*

- Market conditions present favorable interest rates
- Revenues available for debt service are deemed to be sufficient and reliable so that long-term finances can be marketed with an investment grade credit rating
- The project securing the financing is of the type which will support an investment grade credit rating
- The serviceable life of the project or asset to be financed will exceed the life of the debt obligation

## **Capital Expenditure/Asset Policy**

- ❖ Expenditure for “any major construction, acquisition, or renovation activity, with a cost of \$3,000 or more and a useful life of over three years, and adds value to the City’s physical assets or significantly increases their useful life is deemed a capital expenditure/asset. Capital assets will be recorded at the historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.
- ❖ Capital expenditures/assets will be depreciated over their estimated useful life within the Enterprise Fund and Internal Service Funds using a straight-line basis. The estimated useful lives for some various City assets are:

<u>Description</u>	<u>Useful Lifespan</u>
Buildings	50 years
Building Improvements	10 years
Copy Machines	5 years
Drainage Flow Rights	40 years
Land Improvements	15 years
Office Furnishings	3 years
Other Tools & Equipment	8 years
Roads	20 years
Vehicles	7 years
Water & Sewer Distribution Systems	50 years

## Capital Improvement Plan Policy

- ❖ A six-year plan for capital improvements will be prepared and adopted by the Planning Commission annually.
- ❖ Any construction of a new facility/infrastructure, non-recurring rehabilitation, purchase or replacement of equipment, purchase of land\*, planning/feasibility study, or engineering with a cost of **\$25,000** or more and a useful life of three years or more must be submitted to the Capital Improvement Plan process. Any professional service costing **\$50,000** or more that is not part of an individual capital improvement project, or a program that is an individual capital improvement project must be submitted to the Capital Improvement Plan process. \*Green Space excluded
- ❖ CIP Capital improvement projects will be brought forward into the annual budget process as part of each director's requested budget. The capital project priority, proposed funding sources, and operating budget impact are considered by the Mayor and City Council prior to approval as part of the City's annual budget.

## Non-financial Policies

- ❖ **Human Resource Management Policy** (p. 29 of Budget Plan Document)
- ❖ **Contracting for Services Policies** (p. 30 of Budget Plan Document)
- ❖ **Continuous Improvement Policy** (p.34 of Budget Plan Document)