

BUDGET AND FISCAL POLICIES

FINANCIAL PLAN PURPOSE AND ORGANIZATION

Financial Planning Objectives

Through its financial planning process, the City will link resources with results by:

- Identifying community needs for services.
- Establishing the programs required to provide these services.
- Establishing program policies and goals which define the nature and level of program services required.
- Identifying activities performed in delivering program services.
- Proposing objectives for improving the delivery of program services.
- Identifying and appropriating the resources required to perform program activities and accomplish program objectives.
- Setting standards to measure and evaluate the output of program activities, accomplishment of program objectives, and expenditure of program appropriations.

The City will use financial modeling tools to assist in the financial planning process and assess and forecast the effect of proposed service levels on tax rates and fees.

Annual Budget

The City's annual budget emphasizes long-range planning and effective program management. The benefits expected from the annual budget include:

- Reinforcing the importance of long-range planning in managing the City's fiscal affairs.
- Concentrating on developing and budgeting for the accomplishment of significant objectives.
- Establishing realistic timeframes for achieving objectives.
- Creating a proactive budget that provides for stable operations and ensures the City's long-term fiscal health.
- Promoting orderly spending patterns.

The City will maintain Government Finance Officers Association (GFOA) standards for the "Distinguished Budget Presentation Award" and will submit the budget document annually for review under the GFOA program.

Measurable Objectives

The financial plan will establish measurable program objectives and allow reasonable time to accomplish those objectives.

Budget Amendments

The Council will formally review the City's fiscal condition, and amend the budget if necessary, in accordance with the Code of Iowa and administrative rules for local governments.

Balanced Budget

The City will maintain a balanced budget. This means that:

- Operating revenues must fully cover operating expenditures, including debt service, over the long term.
- Ending fund balance (or working capital in the enterprise funds) must meet minimum policy levels. For the General Fund, this level has been established at 20% of operating expenditures.

Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation, the beginning fund balance will be used primarily to fund capital improvement plan projects, or other one-time, non-recurring expenditures. Excess balances may also be utilized as part of a program to stabilize property tax levy rates over a planned number of years.

A separate document will be presented to the City Council that provides proposed policies for each of the City's funds. Information to be included will be a description of the fund, primary sources of revenue and expense for the fund, and the fund balance policy. The document will also address maintaining fund balances to respond to possible contingencies and emergencies.

FINANCIAL REPORTING

Annual Reporting

The City will prepare annual financial statements as follows:

- In accordance with various requirements, the City will contract for an annual audit by a qualified independent certified public accountant. The City will strive for an unqualified auditor's opinion.
- The City will use generally accepted accounting principles in preparing its annual financial statements, and will strive to meet the requirements of the GFOA's Award for Excellence in Financial Reporting program.
- The City will issue audited financial statements within 180 days after year-end.

GENERAL REVENUE MANAGEMENT

Diversified and Stable Base

The City will seek to maintain a diversified and stable revenue base to reduce the effects of short-term fluctuations in any one revenue source.

Current Revenues for Current Uses

The City will fund current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.

Interfund Transfers and Loans

In order to achieve important public policy goals, the City has established various special revenue, capital project, debt service and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures and fund equity.

Any transfers between funds for operating purposes are clearly set forth in the annual budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for

temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year.

In summary, interfund transfers result in a change in fund equity; interfund borrowings do not, as the intent is to repay the loan in the near term.

USER FEE COST RECOVERY GOALS

Ongoing Review

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the service delivery costs as well as changes in methods or levels of service delivery. In instances where State or other regulations limit the level of fees charged for City services, the user fee cost recovery principles may not apply. The budget document will identify where fee levels have been limited and clearly identify the subsidy required due to user fee limitations.

User Fee Cost Recovery Levels

In setting user fees and cost recovery levels, the following factors will be considered:

- *Community-Wide Versus Special Benefit* – The level of user fee cost recovery should consider the *community-wide* versus *special service* nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
- *Service Recipient Versus Service Driver* – After considering community-wide versus special benefit of the service, the concept of *service recipient* versus *service driver* should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts; the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery from the applicant is appropriate.
- *Effect of Pricing on the Demand for Services* – The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly stimulated by artificially low prices. Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.
- *Feasibility of Collection and Recovery* – Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.

Factors Favoring Low Cost Recovery Levels

Very low cost recovery levels are appropriate under the following circumstances:

- There is *no* intended relationship between the amount paid and the benefit received.
- Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
- There is *no* intent to cover the cost of the service. Examples may include park shelter and auditorium rental.
- The service is non-recurring, generally delivered on a “peak demand” or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services fall into this category.
- Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Small-scale licenses and permits might fall into this category.

Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

- The service is similar to services provided through the private sector and private or other public sector alternatives could or do exist for the delivery of the service.
- For requested service that requires added costs, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received. An example is higher fees for utility hook-up after normal working hours.
- The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.

General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges:

- Revenues should not exceed the reasonable cost of providing the service.
- Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance and insurance.
- The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- Rate structures should be sensitive to the “market” for similar services as well as to smaller, infrequent users of the service.
- A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

Low Cost Recovery Services

Based on the criteria discussed above, the following types of services should have very low cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for the operation as a whole should be general-purpose revenues, not user fees.

- Delivering public safety emergency response services such as police patrol services and fire suppression.

- Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.
- Providing social service programs and economic development activities.

Recreation Programs

The following cost recovery policies apply to the City's recreation programs:

- Cost recovery for activities directed to adults should be relatively high.
- Cost recovery for activities directed to youth and seniors should be relatively low. Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high levels of participation in youth and senior recreation activities regardless of financial status.
- In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.

The City Parks and Recreation Department will work with the Parks and Recreation Commission to review recreation programs and establish specific cost recovery targets for broad program classifications. The FY 04/05 budget reflects the first step in this process as the Recreation Administration Program expenditures were reduced by allocation directly to recreation programs.

Planning Programs

The following cost recovery policies apply to the Current Planning programs:

- Services provided under this category include:
 1. Planning (planned development permits, tentative tract and parcel maps, rezonings, general plan amendments, variances, use permits).
 2. Building and safety (building permits, structural plan checks, inspections, rental inspections).
 3. Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments).
- Cost recovery for these services should generally be very high. In most instances, the City's cost recovery goal should be 100%. Exceptions to this standard include Long Range planning services, as this function is clearly intended to serve the broader community.

Comparability With Other Communities

In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

- Surveying other comparable communities provides useful background information in setting fees:
 1. They reflect the market for these fees and can assess where the City compares.
- If prudently analyzed, they can serve as a benchmark for how cost-effectively the City provides its services.
- However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:

1. What level of cost recovery is their fee intended to achieve compared with our cost recovery objectives?
2. What costs have been considered in computing the fees?
3. When was the last time that their fees were comprehensively evaluated?
4. What level of service do they provide compared with our service or performance standards?
5. Is their rate structure significantly different than ours and what is it intended to achieve?

These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of our fees to other communities should be one factor among many that is considered in setting City fees.

ENTERPRISE FUND FEES AND RATES

Water, Sewer, Electric, Resource Recovery

The City will set fees and rates at levels which fully cover the total direct and indirect costs --- including operations, capital outlay, capital improvements, and debt service--- of the following enterprise programs: water, sewer, electric, and resource recovery. For major City utilities including water, sewer, and electric, the City will model five years of projected revenues and expenses including capital improvements. These projections will be used to identify and notify the City Council of the timing and level of possible rate changes.

Homewood Golf

Golf program fees should fully cover direct operating costs. Because of the nine-hole nature of the golf course with its focus on youth and seniors, subsidies from other City funds (Local Option Tax, General, Hotel/Motel Tax) to finance capital improvements will be presented to the City Council as part of the financial planning process.

CyRide Transit

Costs for operating the CyRide transit system will be shared based on the agreement among the City of Ames, Iowa State University, and the Iowa State University Government Student Body. The City support of CyRide will be limited to the transit property tax rate.

Ice Arena

The Ames/ISU Ice Arena fees and rates are set to fully cover direct operating costs. Major capital improvement costs will be funded by the City of Ames and Iowa State University.

Storm Sewer Utility

The storm sewer utility rates are intended to fund operating costs of the Storm Sewer Utility. Major capital improvements will be funded by other funding sources including general obligation bonds.

Payment In-Lieu of Taxes

In accordance with long-standing practices, the City will treat the Electric Utility in the same manner as if it were privately owned and operated. In addition to setting rates at levels necessary to fully cover the cost of providing electric service, this means assessing reasonable property tax in-lieu of fees.

- For the Electric Utility, property tax in-lieu fees are established under the same methodology used in assessing property tax for the City of Ames.

Enterprise Fund Debt Service – The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City’s rate review and setting process.

GRANT FUNDING POLICY

The City will actively seek grant funding to fund both operating and capital expenditures. Prior to acceptance of grant funding, an evaluation of the grant must determine the following:

- The grant purpose is compatible with City program objectives.
- The benefits provided by the grant exceed the cost of administration.
- The grant does not commit the City to long-term tax funded expenditures after the completion of the grant period. The City will evaluate the cost and funding source to determine whether to continue the service when the grant period ends. The decision to continue to fund or drop will be made prior to accepting the grant. Alternatively, the City could choose to continue the service with other funding.

REVENUE DISTRIBUTION

The Council recognizes that generally accepted accounting principles for state and local governments discourage the earmarking of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City’s management of its fiscal affairs. Approval of the following revenue distribution policies does not prevent the City Council from directing General Fund resources to other functions and programs as necessary.

Road Use Tax Revenue

All Road Use Tax revenues (which are restricted by the State for street-related purposes) will be recorded in the Road Use Tax fund and reports will be provided to the State of Iowa per Code of Iowa requirements. The City will utilize this fund primarily for eligible operations and maintenance activities; the available funds may be utilized for eligible capital improvement funding.

The City maintains several other special revenue funds. The policy for revenue allocation for these funds will be included in the City Fund Policy Document.

INVESTMENTS

Responsibility

Investments and cash management are the responsibility of the City Treasurer or designee.

Investment Objectives

The City’s primary investment objective is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default.

Accordingly, the following factors will be considered in priority order in determining individual investment placements:

- Safety
- Liquidity
- Yield

A formal investment policy has been adopted by the City Council; this policy requires regular reporting by the City Treasurer that demonstrates compliance with the policy.

FUND BALANCE DESIGNATIONS AND RESERVES

Minimum Fund Balance

The City will establish and maintain fund balances based on evaluation of each individual fund. The minimum balance will be set at a level that is considered the minimum necessary to maintain the City's creditworthiness and to adequately provide for:

- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
- Contingencies for unseen operating or capital needs.
- Cash flow requirements.

Other Designations and Reserves

In addition to the designations noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements; reserves for encumbrances; and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.

Equipment Replacement

For certain assets, the City will establish and maintain equipment replacement funds to provide for the timely replacement of computers, vehicles, and certain capital equipment. The City will maintain a balance in the Equipment Replacement Fund adequate to spread the cost of replacement evenly over the life of the asset.

The annual contribution to this fund will generally be based on the estimated life of the vehicle or equipment and its projected replacement cost. Sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the Equipment Replacement Fund. The City Information Services and Fleet Services policies cover this subject in greater depth.

Future Capital Improvement Project (CIP) Designations

The Council may designate specific fund balance levels for future development of capital projects that it has determined to be in the best long-term interest of the City.

CAPITAL IMPROVEMENT MANAGEMENT

CIP Projects - \$15,000 or More

Construction projects, equipment purchases, and certain studies that cost \$15,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than \$15,000 generally will be included within the operating program budgets. CIP projects are also infrequent in nature, there will be operating and maintenance projects that exceed the \$15,000 threshold but will not qualify as CIP projects.

CIP Purpose

The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a

five-year plan organized into the same functional groupings used for the operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace, or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the City's existing fixed assets.

CIP Review

The City Manager, Assistant City Managers, Finance Department staff, and applicable department personnel will review project proposals, determine project phasing, and review and evaluate the draft CIP budget document.

CIP Appropriation

The City's annual CIP appropriation is based on the projects designated by the City Council through adoption of the five-year capital improvements financial plan. Adoption of the CIP document does not automatically authorize funding for the entire five-year plan. The first year of the plan is included as part of the annual budget process and will be authorized by City Council with the budget authorization.

CIP Budget Carryover

Appropriations for CIP projects lapse at the end of each fiscal year. Projects that are not completed are reviewed and will be submitted to the City Council as part of a budget amendment.

CAPITAL IMPROVEMENT FINANCING AND DEBT MANAGEMENT

Capital Improvement Financing

The City will consider the use of debt financing for capital improvement projects only under the following circumstances:

- When the project's useful life will exceed the term of the financing.
- When project revenues or specific resources, including property taxes, will be sufficient to service the long-term debt.

Debt financing will not be considered appropriate for recurring purposes such as current operating and maintenance expenditures.

The additional cost of public capital improvements required to support specific developments will be financed primarily by the owners of the development and will be specified in development agreements.

Road Use Tax revenue is a major funding source in financing transportation system improvements and operations and maintenance. However, revenues from these fees are subject to fluctuation. Accordingly, the following guidelines will be followed in designing and building projects funded with Road Use Tax revenue:

- The availability of Road Use Tax for funding eligible projects will be analyzed as part of the five-year capital improvement plan.
- If adequate funds are not available, the Council will make one of two determinations:
 1. Defer the project until funds are available.
 2. Based on the priority of the project, issue G. O. Bonds, or use other funding sources.

The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:

Factors Favoring Pay-As-You-Go Financing

- Current revenues and adequate fund balances are available or project phasing can be accomplished.
- Existing debt levels adversely affect the City's credit rating.
- Market conditions are unstable or present difficulties in marketing.

Factors Favoring Long-Term Financing

- Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
- The project securing the financing is of the type that will support an investment grade credit rating.
- Market conditions present favorable interest rates and demand for City financings.
- A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
- The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
- The life of the project or asset to be financed is ten years or longer.
- The cost of the project should be spread to benefited users over the life of the capital improvement.

Debt Management

An analysis will be prepared as part of the Capital Improvement Plan process which analyzes the impact of outstanding and planned debt issuance on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.

The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.

The City will seek an investment grade rating on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.

The City will monitor all forms of debt annually coincident with the City's annual budget preparation and review process and report concerns and remedies, if needed, to the City Council. The City will also continually monitor outstanding debt for potential savings through refinancing.

The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.

The City will maintain good, ongoing communications with bond rating agencies concerning its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement). The City will strive to maintain the highest bond rating that is financially feasible.

Debt Capacity

General Obligation Debt Capacity – The City will carefully monitor its levels of general obligation debt. Because the City’s general obligation debt capacity is limited, it is important that general obligation debt only be used for financing projects where other financing methods cannot reasonably be used.

Abated Debt - If the City debt management analysis shows that adequate debt capacity is available and will remain available, general obligation bonds may be issued for City enterprise fund activities. The repayment of this debt will be provided by the activity receiving funding. The City’s annual budget will provide a report of all abated debt and the source of funding for repayment of the debt.

Debt Capacity Limits - The State of Iowa limits total outstanding local general obligation debt bonds to five percent of total assessed valuation for local government subdivisions. The City of Ames further limits debt capacity by reserving 25% of the State allowed maximum. The budget document is required to demonstrate compliance with this policy.

Conduit Financings

The City will consider requests for conduit financing on a case-by-case basis using the following criteria:

- The City’s bond counsel will review the terms of the financing, and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant.
- There is a clearly articulated public purpose in providing the conduit financing.
- The applicant is capable of achieving this public purpose.
- The applicant is a strong credit risk and will provide credit enhancements.

This means that the review of requests for conduit financing will generally be a two-step process:

- Asking the City Council if they are interested in considering the request, and establishing the ground rules for evaluating it.
- Providing the City Council with the results of this evaluation, and recommending approval of appropriate financing documents, if warranted.

This two-step approach ensures that the issues are clear for both the City and applicant, and that key policy questions are answered.

The work scope necessary to address these issues will vary from request to request, and will have to be determined on a case-by-case basis. Additionally, the City should generally be fully reimbursed for the cost of evaluating the request; however, this should also be determined on a case-by-case basis.

EXCELLENCE THROUGH PEOPLE (ETP)

Ensuring that quality programs are provided in an “efficient and fiscally responsible manner” is one of the key concepts embodied in the City’s Mission Statement. To this end, the City will monitor and review methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible. This review process encompasses a wide range of productivity issues, including:

- Analyzing systems and procedures to ensure efficient delivery of services.

- Evaluating the ability of new technologies and related capital investments to improve productivity.
- Developing the skills and abilities of all City employees.
- Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
- Evaluating the ability of the private sector to perform the same level of service at a lower cost.