STAFF REPORT For Meeting of December 28, 2015 MAYOR AND MEMBERS OF THE CITY COUNCIL	Agenda Item # NO. 2015- **SUBJECT:** Resolutions 2010 and 2011

Subject

Consider resolution 2010 to adopt revised financial policies and resolution 2011 re-adopting the written investment policy for the City.

Summary and Background

Resolution 2010 (supersedes Resolution 1969) adopts the revised financial policies for the City. The City Council adopted written financial policies on August 26, 2013 and revised them on November 24, 2014. The policy document provides for an annual review to ensure continued relevance and to identify any gaps that should be addressed with new policies.

I am recommending that we include an additional policy that addresses fund balance component classifications and procedures for using the various classifications in conformity with GASB Statement No. 54. The goal of Statement 54 is "to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions."[1] It also "establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds." [1] This is not a new practice or policy for the City; this has been the City's policy since GASB 54 was implemented in the 2010-11 fiscal year. However, it was not previously included in the City's written financial policies.

Resolution 2011 (supersedes Resolution 1968) re-adopts the City's investment policy. Per ORS 294.135 investments made by political subdivisions of Oregon may not exceed a maturity of 18 months or the date of anticipated use of the funds, whichever period is shorter, unless the governing body has adopted a written investment policy. The policy must provide for re-adoption not less than annually. The City Council adopted an investment policy on August 26, 2013 and re-adopted it on November 24, 2014. I am not recommending any changes to the policy this year so it simply needs to be reviewed by Council and re-adopted.

Fiscal Information

None.

Alternatives and Recommendation

Alternatives

Adopt either resolution 2010 or 2011, neither resolution 2010 nor 2011, or both.

Recommendation

Adopt both resolutions.

Requested Action/Motion

Approve both resolutions.

Reviewed by: Amy Palmer

Department Head

City Manager Approval

RESOLUTION NO 2010

A RESOLUTION ADOPTING REVISED FINANCIAL POLICIES FOR THE CITY OF HERMISTON AND SUPERSEDING RESOLUTION NO. 1969

WHEREAS, the City of Hermiston is committed to the highest level of financial integrity, and

WHEREAS, the City of Hermiston is accountable to its citizens for the use of public dollars, and

WHEREAS, written, adopted financial policies have many benefits, such as assisting the Council and City Manager in the financial management of the City and fostering public confidence, and

WHEREAS, the City Council enacted Resolution 1969 on November 24, 2014 revising its written financial policies for the City of Hermiston, and

WHEREAS, the written, financial policies have been further revised to include a policy on fund balance, now, therefore,

IT IS HEREBY RESOLVED that the Financial Policies adopted August 26, 2013, revised November 24, 2014 and December 28, 2015, attached hereto as Exhibit "A", are hereby adopted as the City of Hermiston's Financial Policies.

IT IS FURTHER RESOLVED that this resolution is effective immediately upon its passage and that Resolution No. 1969 is superseded by this resolution.

Dated this 28th day of December 2015. CITY OF HERMISTON

By: _____
MAYOR

ATTEST:

By: _____
CITY RECORDER

Exhibit "A"

Financial Policies

Finance Department

Adopted August 26, 2013

Revised November 24, 2014

Revised December 28, 2015

Exhibit "A"

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Exhibit "A"

I. STATEMENT OF PURPOSE

The City of Hermiston is committed to the highest level of financial integrity. We are accountable to our citizens for the use of public dollars, and resources should be used wisely to ensure adequate funding for the services, public facilities and infrastructure necessary to meet the community's present and future needs.

Written, adopted financial policies have many benefits, such as assisting the Council and City Manager in the financial management of the City, saving time and energy when discussing financial matters, fostering public confidence, and providing continuity over time as Council and staff members change. The purpose of the financial policies is to enable the City to achieve and maintain a long-term stable and positive financial condition. The policies are adopted by the City Council and establish the framework for Hermiston's overall financial planning and management, to guide day-to-day and long-range fiscal planning and decision making, and to achieve the following general financial goals:

1. Ensure the financial integrity of the City.
2. Provide an adequate financial base to sustain a sufficient level of municipal services to maintain the social well-being and physical condition of the City.
3. Provide and maintain essential public facilities, utilities and capital equipment.
4. Enhance policy setting for and sound management of City government by providing accurate and timely information on current and anticipated financial conditions.
5. Protect and enhance the City's credit ratings.
6. 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.

II. ACCOUNTING AND FINANCIAL REPORTING POLICIES

1. The City will comply with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA); Oregon Revised Statutes relating to Municipal finance; and prevailing federal, state and local statues and regulations.
2. The City will prepare a Comprehensive Annual Financial Report (CAFR) and submit its CAFR to the GFOA's "Certificate of Achievement for Excellence in Financial Reporting" program.
3. Monthly financial reports showing revenue and expenditure activity for each fund will be distributed to the City Manager and City Council.
4. A system of internal controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions and compliance with applicable laws and regulations.
5. The City will maintain accounting records by fund. Per GAAP, proprietary funds will use the accrual basis of accounting and government funds will use the modified accrual basis of accounting. Changes in the basis of accounting will be explained in the budget message for the year in which the change is planned.
6. In accordance with Oregon Administrative Rules, the City will have its accounts and fiscal affairs audited annually in accordance with generally accepted auditing standards (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA).
7. Full disclosure will be provided in the financial statements and bond representations.

III. BUDGET POLICIES

1. The operating budget shall serve as the annual financial plan for the City. It will serve as the policy document of the City Council for implementing Council goals and objectives.
2. The City Council will adopt and maintain a balanced annual operating budget in conformance with existing state and local regulations. Per Local Budget Law, the City Council shall adopt the budget at the fund, department or program level as appropriate.
3. Budget control and accountability is maintained at the same level it is appropriated.
4. The Budget Officer shall annually prepare and present a proposed operating budget to the Budget Committee no later than May 30 of each year, and the City Council will adopt the budget no later than June 30 of each year.
5. Historical trend analysis will be performed on both revenues and expenditures as part of the budget process. Efforts will be made to identify potential deviations from the trends and this information will be factored into revenue and expenditure forecasts.
6. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the City Council.
7. The budget process will be coordinated so that major policy issues and department goals and objectives are identified and incorporated into the budget.
8. Monthly reports comparing budgeted to actual revenues and expenditures will be distributed to the City Manager and City Council. Significant variances will be investigated and explained.
9. The operating budget will be constrained to the total amount approved by the Budget Committee and as adjusted and adopted by the City Council.
10. A mid-year review process will be conducted by the City Manager to make any necessary adjustments to the adopted budget.
11. All resolutions adjusting the budget will be prepared by the Finance Department for Council approval to ensure compliance with budget laws.

IV. CAPITAL MANAGEMENT POLICIES

1. The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future operating maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues when possible.
2. The City will determine the least costly funding method for its capital projects and will obtain grants, contributions and low-cost state or federal loans whenever possible.
3. The City will establish capital equipment reserves to provide for funding of vehicles and equipment. The City will also establish major repairs and replacement reserves to provide for funding of major repairs and replacements.
4. The City will utilize "pay-as-you-go" funding for capital improvement expenditures considered recurring, operating or maintenance in nature. The City may also utilize "pay-as-you-go" funding for capital improvement expenditures when current revenues and adequate fund balances are available or when issuing debt would adversely affect the City's credit rating.
5. The City will consider the use of debt financing for capital projects under the following circumstances:
    a. When the project's useful life will exceed the terms of the financing;
    b. When resources are deemed sufficient and reliable to service the long-term debt; and
    c. When market conditions present favorable interest rates for City financing.

V. DEBT POLICIES

Local government debt should not be viewed as revenue to supplement local government or municipal operating budgets. Rather, bonds are loans with significant costs and are incurred with an obligation for current and "future" taxpayers to repay. Issuing debt is theoretically justified on the basis of several factors, for example:

- Borrowing distributes costs and payments for a project or improvement to those who will benefit from it over its useful life rather than requiring today's taxpayers or rate payers to pay for future use.
- During times of inflation, debt allows future repayment of borrowed money in cheaper dollars.
- Borrowing can improve a municipality's liquidity to purchase needed equipment or for project construction and improvements. Debt issuance also does not exhaust current cash-on-hand, allowing such dollars to be used for operating expenses.

The following statements describe the City's policies in regards to issuing and managing debt.

1. The City will comply with all statutory debt limitations imposed by Oregon Revised Statutes.
2. Proceeds from debt will be used for the purpose(s) specified in the debt issue. Funds remaining after the project is completed will be used in accordance with the provisions stated in the bond ordinance that authorized the issuance of the debt.
3. Interest earnings on bond proceeds will be limited to 1) funding the improvements specified in the authorizing bond ordinance, or 2) payment of debt service on the bonds.
4. The City will comply with all bond covenants, arbitrage requirements, EMMA filings, disclosure and other requirements specified by law.
5. The City will not issue long-term debt to finance current operations or to balance the budget.
6. The City may use short-term debt or inter-fund loans as permitted, to cover temporary shortages due to timing of cash flows which may result from delay in issuance of long-term debt.
7. The term of debt will not exceed the useful life of the improvements to be financed.
8. Outstanding debt may be *currently*[1] refunded to achieve interest cost savings or to remove debt covenants and structures which are not consistent with financial management goals. Outstanding debt may be *advance*[2] refunded when advantageous, legally permissible, prudent or net present value savings greater than 3% are available through refunding.
9. Total indebtedness including direct and overlapping debt will be analyzed in determining financial condition.
10. The City will prefer maturity schedules that yield level debt service payments over other schedules.
11. General and non-general obligation debt financings may be sold on a negotiated basis if it is found that the sale by negotiation provides significant cost or other advantages.
12. Agreement with commercial banks or other financial entities may be entered into for purposes of acquiring lines of credit that will provide access to credit under terms and conditions judged prudent and advantageous.

[1] Refundings are defined as current when new bonds are sold to refinance outstanding bonds prior to their maturities but after the call date has occurred or is about to occur. The refunding cannot take place earlier than three months before the call and any time afterwards. Under federal law the bond redemption must occur within 90 days of selling the new bonds or it will be considered an advance refunding. Under Oregon state law the bond redemption must occur within one year of selling the new bonds or is considered an advance refunding.

[2] Advance refundings occur when outstanding bonds are refinanced 90 days prior to their maturities and prior to the call dates for federal law purposes and one year for State of Oregon purposes.

VI. INTER-FUND LOAN POLICIES

In accordance with ORS 294.468 the City may loan money from one fund to another, provided the loan is authorized by an official resolution or ordinance of the City Council. In addition the City will comply with the requirements and limitations of ORS 294.468 as follows:

- Loans may not be made from debt service funds.
- Loans made from debt service reserve funds created to provide additional security for outstanding bonds or other borrowing obligations are limited to amounts in the fund that are in excess of the amount the City has covenanted to maintain in reserve.
- Loans may not be made from moneys credited to any fund when there are constitutional provisions that restrict those moneys to specific uses, unless the purpose for which the loan is made is a use allowed under such constitutional provisions.
- The resolution or ordinance must state the fund from which the loan is made, the fund to which the loan is made, the purpose of the loan, and the principal amount of the loan.
- If the loan is an operating loan (a loan to cover operating expenses) it must be repaid to the fund from which it is borrowed by the end of the fiscal year, or the repayment must be budgeted and made in the next fiscal year.
- If the loan is a capital loan (a loan for the purpose of financing the design, acquisition, construction, installation or improvement of real or personal property), it must be repaid in full within 10 years of the date of the loan. The resolution or ordinance must set forth a schedule under which the principal and interest is to be budgeted and repaid. It must also state the rate of interest. The rate of interest may be the current rate of return on monies invested in the Local Government Investment Pool (LGIP) or such other rate as the governing body determines.
- If the loan will be repaid in the current fiscal year, no action by the City Council is necessary in regard to the budget. The budget does not need to be adjusted to show the loan transaction.
- If the loan will be repaid in one or more future fiscal year(s), the loan repayment must be budgeted and a separate debt service appropriation made for the expenditure.

VII. FUND BALANCE POLICY

The purpose of this policy is to outline the procedure for categorizing the different components of ending fund balance in conformity with GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The goal of Statement 54 is "to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions."[1] It also "establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds."[1]

DEFINITIONS:

Governmental Fund – a type of fund in governmental accounting which is used to account for activities supported by taxes and general City revenues. Governmental funds are defined as the general, debt service, special revenue and capital projects funds.

Fund Balance – the difference between the assets and liabilities reported in a governmental fund.

Special Revenue Fund – a type of governmental fund used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

FUND BALANCE CLASSIFICATIONS:

In order of most to least restrictive fund balance classifications are:

- *Nonspendable* – resources that cannot be spent because they are either not in a spendable form, such as inventories or prepaid items, or legally or contractually required to be maintained intact.
- *Restricted* – resources that are constrained either (a) through external imposition by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) by law through constitutional provisions or enabling legislation.
- *Committed* – resources that can only be used for the specific purposes as determined by a formal action of the City Council. The Council can modify or rescind the action at any time. The same type of action that imposed the restriction must be used to modify or remove the restriction.
- *Assigned* – resources that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. An example of this is the annual budget. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- *Unassigned* fund balance is the residual classification for the general fund and includes all spendable amounts that are not restricted, committed or assigned.

PROCEDURES:

When the option is available to use restricted or unrestricted resources for any purpose, the City expends restricted resources first. When the option is available to use committed, assigned, or unassigned resources for any purpose, the City expends committed resources before assigned resources and assigned resources before unassigned.

[1] Governmental Accounting Standards Board Summary of Statement No. 54

VIII. EXPENDITURE POLICIES

1. The City will strive to ensure operating expenditures are supported by on-going operating revenues. Before the City undertakes any agreements that would create fixed, on-going expenditures, the cost implications of such agreements will be fully determined for current and future years.
2. Capital expenditures may be funded from one-time revenues.
3. Department heads are responsible for managing their budgets within the total appropriation for their department.
4. Expenditures will be controlled through appropriate internal controls and procedures.
5. All purchases of goods and services must comply with the City's Public Contracting Regulations, guidelines and procedures and with Oregon State laws and regulations.
6. The City will actively work to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost-effective and efficient.
7. Expenditures will be estimated realistically and prudently.

IX. FINANCIAL PLANNING POLICIES

1. The City will prepare a long-term financial plan to promote responsible planning for the use of resources. The long-term financial plan will include projected revenues, expenditures and reserve balances for the next five years.
2. The City's financial plan will be strategic, reflecting the Council's and the community's priorities for service while providing resources that realistically fund routine operations.
3. Long-term projections of revenues and expenditures will be realistic, conservative and based on best practices established by the Government Finance Officers Association.

Exhibit "A"

X. INVESTMENT POLICY

The City's Investment Policy was adopted by Resolution 1946 on August 26, 2013.

The City's Investment Policy was re-adopted by Resolution 1968 on November 24, 2014.

The City's Investment Policy was re-adopted by Resolution 2011 on December 28, 2015.

X. RESERVE POLICIES

Maintaining adequate levels of reserves in the City's various funds is essential to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures, and to ensure stable services, tax rates and user fees. In addition, credit rating agencies monitor reserve levels to evaluate a government's continued creditworthiness. Thus, appropriate reserve levels also serve to lower the cost of borrowing.

1. **General Fund Reserves** – The City will maintain a minimum unrestricted fund balance[1] of 15% (two months) of General Fund annual operating expenditures.
2. **Utility Fund Reserves** - The City will maintain a minimum working capital[2] of forty-five (45) days of its Utility Fund annual operating expenses.
3. **Hermiston Energy Services (HES) Fund Reserves** - The City will maintain a minimum working capital of forty-five (45) days of HES Fund annual operating expenses.
4. **Reserve Fund** – The City will use the Reserve fund to accumulate money for long-term goals and projects of the City. Resources will be provided for the Reserve Fund primarily through appropriations from the operating funds and must be used for the specifically authorized goals listed in the resolution adopted to establish each account in the fund.
5. **Debt Service Reserves** - The City will maintain reserves for debt service as established by applicable bond covenants and other contractual agreements.

[1] Unrestricted fund balance is comprised of *committed, assigned* and *unassigned fund balance.* Fund balance is *committed* when Council takes action to constrain the use of the resources. The constraint must be removed by Council action. Examples include pool fees to be used for pool operations or recreation program fees to be used for recreation program expenses. Fund balance is *assigned* when the Council expresses its intent that the resources are to be used for a specific purpose. An example of this is the annual budget. *Unassigned* fund balance is the remaining amount and represents resources that have not been restricted, committed or assigned.

[2] Working capital is defined as current assets less current liabilities.

XI. REVENUE POLICIES

1. The City will seek to establish and maintain a diversified and stable revenue system to prevent undue or unbalanced reliance on any one source of funds.
2. The City will avoid the use of one-time revenues to fund ongoing expenditures.
3. User fees and charges will be established for services provided that benefit specific individuals or organizations. User fees and charges will be set at a level sufficient to recover full cost of service whenever practical to minimize subsidization by taxpayers. The City will periodically review user fees and charges and adjust them as needed for additional service costs and inflation.
4. The City will not respond to long-term (greater than one year) revenue shortfalls with deficit financing and borrowing to support on-going operations. Expenses will be reduced to conform to the long-term revenue forecasts and/or revenue increases will be considered.
5. Revenues will be estimated realistically and conservatively.
6. Utility funds will be self-supporting through user fees. User charges shall be levied on all users of the system which shall cover the cost of operation and maintenance, debt service and other administrative costs of treatment works.
7. The City will seek to collect all revenues that are due, using methods and practices that comply with all state, federal and other applicable laws and regulations. When necessary, discontinuing service, employing collection agencies, filing liens and other methods of collection, such as imposing penalties, collection and late charges, may be used.
8. Grants for programs or items which address the City's current priorities and policy objectives may be considered to leverage City funds.
9. The City will consider the matching requirements and other implications in terms of ongoing obligations that will be required in connection with the acceptance of a grant before accepting it.
10. All grants, awards and other state and federal funds will be managed to comply with the laws, regulations and guidance of the grantor.

XII. POLICY MAINTENANCE AND CONSIDERATIONS

1. **Review**
   The Financial Policies shall be reviewed annually to ensure continued relevance and to identify any gaps that should be addressed with new policies.
2. **Policy Adoption and Amendments**
   These Financial Policies and any modifications to them must be formally approved in writing by the City Council of the City of Hermiston.