CITY OF MARTINSVILLE, VA

FINANCIAL POLICY GUIDELINES

Contents

FINANCIAL POLICIES-CITY OF MARTINSVILLE, VA

1. FINANCIAL POLICY OBJECTIVES

This financial policy is a statement of the guidelines and goals that will influence and guide the management practice of the City of Martinsville, Virginia. Financial Policy Guidelines adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Practical financial policy guidelines serve to:

a. Contribute significantly to the City's ability to insulate itself from fiscal crisis.
b. Enhance the City's short-term and long-term financial credit by helping to achieve the highest credit and bond ratings possible.
c. Promote long-term financial stability by establishing clear and consistent guidelines.
d. Direct attention should be paid to the total financial picture of the city rather than single-issue areas.
e. Promote the view of linking long-run financial planning with day-to-day operations.
f. Provide the City Council and the citizens with a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.
g. Ensure that the organization has sufficient resources to perform mandated responsibilities.

While adherence to this policy is expected, the City understands that changes in the capital markets, City programs, or other unforeseen circumstances may, from time to time, produce situations that are not covered by this policy and will require modifications or exceptions to achieve the policy goals. In these cases, the City’s management may act, provided specific authorization from the City Council is obtained. These Financial Policy Guidelines shall be reviewed at least every two years by the Fiscal Management Team, who shall report their findings to the City Manager and City Council.

2. BUDGET DEVELOPMENT POLICIES

Principles

a) The budget development process will be collaborative and include residents, the City Council, and staff.

b) The City will strive to maintain diversified and stable revenue streams to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services.

c) The City will avoid dedicating revenue to a specific project or program because of the constraint this may place on flexibility in resource allocation except in instances where programs are expected to be self-sufficient or where revenue is dedicated to a program for statutory or policy reasons.

d) The budget process will be coordinated so that significant policy issues are identified for the City Council several months before budget approval is considered. This will allow adequate time for appropriate decisions and analysis of financial impacts.

Policies

e) The City Council shall adopt a balanced budget in accordance with all legal requirements.

f) All operating budget appropriations shall lapse at the end of the fiscal year to the extent that they are not expended or encumbered.

g) A favorable vote from a majority of members of the City Council shall adopt the budget.

h) The city council's Vision and priorities, as well as the Strategic Plan, will serve as the framework for the budget proposed by the City Manager.

i) Current revenues will fund current expenditures. One-time or other special revenues will not be used to finance continuing city operations but will instead be used to fund special projects.

j) The City will pursue an aggressive policy seeking the collection of delinquent real estate, utility, licenses, permits, and other taxes and fees due to the City via the utilization of third-party collection agencies.

k) The City will prepare and annually update a long-range (5-year) financial forecast model utilizing trend indicators and projections of annual operating revenue, expenditures, capital improvements with related debt service and operating costs, and fund balance levels.

l) Expenditure and revenue projections will be developed monthly and reviewed with Departmental Directors, the City Manager, and the City Council. The City Manager will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget.

Processes

The City Manager must annually prepare and present a Proposed Budget for City Council review no later than April 30th. The Proposed Budget shall serve as a financial plan for the upcoming fiscal year and shall contain the following information:

a) A budget message outlining the proposed revenue and expenditures for the upcoming fiscal year and explaining any major changes from the previous fiscal year. The budget message should also include any proposals for significant changes in financial policy.

b) Charts indicating the major revenues and expenditures in each major fund (General, Water, Sewer, Electric, Streets, and Stormwater) and changes in fund balance for all funds.

c) Summaries of proposed expenditures for all funds proposed to be expended in a fiscal year.

d) A schedule of estimated requirements for the principal and interest of each bond issue.

e) A three-year history of revenues and expenditures to include the prior year's, actual, and current year's adopted, revised, and proposed budgets for each major fund.

The City Council shall hold a public hearing on the budget submitted by the City Manager for interested citizens to be allowed to be heard on issues related to the proposed budget, including the Capital Improvement Plan. Following the public hearing on the Proposed Budget, the City Council may make adjustments. The City Council can only make recommended changes that keep the budget balanced and adopted with at least three members of the City Council’s prior approval. In instances where the City Council increases the total proposed expenditures, it shall also identify a source of funding equal to the proposed expenditures.

3. CAPITAL IMPROVEMENT POLICIES

The City will develop a five-year Capital Improvement Plan, which will serve as the basis for planning and prioritizing the City’s capital improvement needs based on affordability and compliance with Debt and Reserve Policies. The Capital Improvement Plan will only include projects with identified and known realistic funding sources. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval. These policies also entail the following:

a) The City will consider all capital improvements per an adopted Capital Improvement Plan.

b) In consultation with the City of Martinsville Public School System, the City will develop a five-year Capital Improvement Plan that includes funding sources and uses and review and update it annually.

c) The City will enact an Annual Capital Budget based on the five-year Capital Improvement Plan. The first year of the Plan will be used as the basis for the Budget.

d) The City will coordinate the development of the Annual Capital Budget with the development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

e) The City will maintain all its assets at an adequate level to protect its capital investment and minimize future maintenance and replacement costs.

f) The City will project its equipment replacement and maintenance needs with the five-year Capital Improvement Plan. It will develop a maintenance and replacement schedule to be followed.

g) The City will attempt to determine the least costly and most flexible financing method for all new projects.

h) Upon reaching the Minimum Initial Target of the Unassigned Fund Balance, the City shall budget $500,000 toward the Fund Balance Replenishment and $500,000 to fund Pay-Go Capital Projects.

4. DEBT POLICIES

The City will take on, manage, and repay debt according to the following debt policies:

a) The City will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.

b) When the City finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.

c) Direct Net Debt as a percentage of the estimated market value of all taxable property shall not exceed 4.5%. Direct Net Debt Service is defined as any and all debt service that is tax-supported. This ratio will be measured annually.

d) The ratio of Direct Net Debt Service expenditures as a percent of Total Governmental Fund Expenditures should not exceed 10%. Utility Fund debt service that is self-supporting shall be excluded. Total Governmental Fund Expenditures include the General Fund and School Component Unit Expenditures, less the local government transfer. This ratio will be measured annually.

e) Payout of aggregate outstanding tax-supported Direct Net Debt principal shall be no less than 50% repaid in 10 years.

f) The City recognizes the importance of underlying and overlapping debt in analyzing financial condition. The City will regularly analyze total indebtedness, including underlying and overlapping debt.

g) Where feasible, the City will explore using special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.

h) The City will retire tax anticipation debt and revenue anticipation debt if any, annually.

5. RESERVE POLICIES

The City believes that sound financial management principles always require that the City retain sufficient funds to provide a stable economic base. To retain this stable financial base, the City must maintain enough fund balance reserves to fund all cash flows, provide for unanticipated or emergency expenditures and revenue shortfalls, and provide funds for all existing encumbrances. This policy aims to specify the composition of the City's financial reserves, set minimum levels for certain reserve balances, and identify specific requirements for replenishing any fund balance reserves utilized.

Fund Balance Categories:

A clear and consistent system of classification of the components of the City's fund balances is necessary for documentation of the city's fund balance position, communication with interested parties, and general understanding. The City's reporting and communication relating to fund balance reserves will utilize the classifications outlined in generally accepted accounting principles (GAAP). GAAP dictates the following hierarchical fund balance classification structure based primarily on the extent to which the City is restricted in its use of resources.

1) Non-spendable Fund Balance: These are fund balance amounts that are not readily spendable, such as inventories or prepayments or trust or endowment funds, where the balance must remain intact.
2) Restricted Fund Balance: These amounts have external sources, such as creditors or legal or constitutional provisions, that constrain their use for a specific purpose.

3) Committed Fund Balances: These amounts are designated for a specific purpose or constraints by the City Council's request. Amounts within this category require City Council action to commit or to release the funds from their commitment.

4) Assigned Fund Balances: These are amounts set aside for specific purposes. The expression of intent can be by the City Council and requires City Council action to remove the resource constraint.

5) Unassigned Fund Balances: These are amounts not included in the previously defined categories. Amounts in this classification represent balances available for appropriation at the discretion of the City Council. However, the City Council recognizes that the Unassigned Fund Balance needs to be sufficient and comprised of liquid cash and investments to meet the City's cyclical cash flow requirements and allow the City to avoid the need for short-term tax anticipation borrowing. The Unassigned Fund Balance should also allow for a margin of safety against unforeseen expenditures that could include, but not be limited to, natural disasters, severe economic downturns, and economic development opportunities. Unassigned Fund Balance shall not be used for annual recurring expenditures except for unforeseen emergencies. The City shall maintain an unassigned fund balance that represents 60 days of its general fund operating costs to reach the target of 90 days of its general fund operating expenditures. This will include the City budgeting $1,000,000 annually toward the Unassigned Fund Balance. Upon reaching the target of 90 days, the City shall budget $500,000 toward the Fund Balance Replenishment and $500,000 to fund Pay-Go Capital Projects.

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Prioritization of Fund Balances

As indicated, the fund balance classifications outlined above are based on the level of restriction. In the event expenditures qualify for disbursement from more than one fund balance category, the City of Martinsville's policy is to use the most constrained fund balance available first, and the unassigned fund balance last.

Accounting for Encumbrances

Amounts set aside for encumbered purchase orders may be restricted, committed, or assigned fund balances depending upon the resources used to fund the purchases. Amounts set aside for encumbrances may not be classified as unassigned since creating an encumbrance signifies a specific purpose for using the funds.

Replenishment of the Unassigned Fund Balance:

Upon using any Unassigned Fund Balance that causes such balance to fall below the Policy Goal or target levels, the City Council must approve and adopt a plan to restore the amounts used within 24 months. If restoration of the reserve cannot be accomplished within such a period without severe hardship to the City, then the City Council will establish a different time period.