

City of West Linn Fiscal Policies

**Adopted February 27, 1995 by Resolution No. 95-06
Revised May 14, 2018 by Resolution No. 2018-11**

INTRODUCTION

In mid-1991, management recognized the need for staff, the Budget Committee and the City Council to agree on the on the financial operations of the City. At that time, the City lacked a set of written fiscal policies which would help: (a) guide the financial decision-making of the City, and (b) minimize areas of disagreement between the desires of the City Council and the Budget Committee, and the actual financial operation of the City by staff.

Starting in January 1993, the Finance Director facilitated steps toward the adoption of a set of fiscal policies, with the following goals in mind:

- Establish more consistency in making financial decisions. If issues are formalized, they will be more difficult to change from year to year, and the City will tend to become more consistent in its financial decisions.
- Create a statement of purpose that becomes prescriptive. This will establish some standard authoritative rules and directions for the council, the budget committee and staff to follow.
- Identify strengths and weaknesses in the overall financial system. This will increase the strength of the City's financial organization – showing the community that weaknesses have been identified and improvements are being made.
- Establish a standard operating procedure to guide day-to-day activities of the City's financial operation. This will allow people to make decision within a structured framework which provides consistency and order.
- Provide a standard of performance of the City's financial operation. This will enable people to measure performance in relation to the City's objectives and to determine staff's effectiveness.
- Improve the City's bond rating, which can ultimately save the City money.

The Budget Committee held several public meetings over the next six months, to get the public's input in the drafting of the policies, and they played an active role in formulating the statements of purpose within the policies. They established policies in seven areas:

- **Revenue policy** dealing with taxes and other means by which the city raises revenue.
- **Operating budget policy** relating to budgeting guidelines.
- **Capital improvement policy** relating to establishing a 5-year capital improvement plan.
- **Accounting policy** relating to reporting financial transactions and preparing financial reports.
- **Debt policy** dealing with long-term financing of the city's capital needs and maintaining its bond rating in the credit market.
- **Reserve policy** for establishing unappropriated 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** dealing with approval, recommendation, review and implementation of policies – including monitoring compliance.

In August 1993, the City Council adopted its first set of fiscal policies by resolution, which was replaced in February 1995 with updated policies by Resolution No. 95-06. In 2018, the City amended Section 6, Reserve Policy, with the adoption of Resolution No. 2018-11.

1 Revenue Policy

1.1. System development charges shall be established to fund the costs of improvements to service additional increments to growth, such as street, storm, water, sewer, and parks and recreation facilities.

1.2. The City will maximize the use of service users' charges in lieu of ad valorem taxes and subsidies from other City funds, for services that can be identified and where costs are directly related to the level of service provided.

1.2.1 Charges for providing utility services shall be sufficient to finance all operating, capital outlay and debt service expenses of the City's enterprise funds, including operating contingency and reserve requirements.

1.2.2 User charges shall fund 100% of the direct cost of development review and building activities. User charges include land use, engineering inspection, building permit and building inspection fees.

1.2.3 Park recreation programs shall be funded by a users' charge. Annual revenues raised by participant fees shall cover at least 100% of the program's cost with no assessment made for administration. No one shall be denied access to park recreation programs due to their lack of ability to pay for the full participant fee.

1.2.4 Other reimbursable work performed by the City (labor, meals, contracted services, equipment and other indirect expenses) shall be billed at actual or estimated actual cost.

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

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

2 Operating Budget Policy

2.1 The City shall prepare, present, adopt and amend its annual operating budget(s) in accordance with Oregon Budget Law.

2.1.1 The City shall maintain a budget system to monitor expenditures and revenues on a monthly basis, with a thorough analysis and adjustment (if required) at least at mid-year.

2.2 The City shall not adopt an operating budget that is greater than the amount of resources available to fund it. Current operating resources will be sufficient to support current operating expenditures, reimbursement transfers, reserves, unappropriated balances and contingencies.

2.3 Annual recurring revenues (including interfund reimbursement charges) of the General and Enterprise Funds' shall not be less than annual recurring operating expenditures (total annual budget, minus capital outlay, equity transfers, reserves, appropriated balances and contingencies).

2.4 Unless otherwise authorized by City Council, General Fund and other unrestricted revenues shall not be earmarked for specific programs, activities or services.

2.5 Long-term debt or bond financing shall only be used for the acquisition of capital facilities or specialized equipment. Long-term debt or bond financing shall not be used to finance current operating expenditures.

2.6 An Equipment Replacement Reserve Fund(s) shall be established to replace equipment with a life of more than five years and a value of \$25,000 or more. The schedule will annualize replacement costs, using a sinking factor indexed to the estimated market rate of interest plus salvage value.

2.7 Every City fund, department, program or activity shall start each year's budget cycle with no predetermined budget appropriation amount. Budget appropriation decisions and the allocation of resources shall be based on merit and need.

3 Capital Improvement Policy

3.1 Annually, the City shall adopt a 5-year Capital Improvement Plan (CIP). Prior to adopting a Capital Improvement Plan, the City shall hold public meetings and a public hearing on the contents of the CIP document. The document shall provide details on each capital project plan: its estimated costs, sources of financing and a full description, including a detailed statement identifying: (a) the needs, conditions and circumstances that have caused the project's creation and (b) the expected results if the project is approved and implemented.

3.2 Operating expenditures shall be programmed into each capital project plan, including the cost of implementing the plan and all continuing labor, operating and capital outlay costs.

4 Accounting Policy

4.1 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 Government Finance Officers Association (GFOA), Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

4.2 An annual audit shall be performed by an independent public accounting firm, which will issue an official opinion on the annual financial statements, along with a management letter identifying areas needing improvement, if necessary.

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

4.4 Monthly budget 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.

5 Debt Policy

5.1 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 and (b) is less than 30% of the expected useful life of the improvements.

5.2 The City shall use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements.

5.3 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.

6 Reserve Policy

6.1 The City shall maintain a contingency reserve to provide for unanticipated expenditures of a nonrecurring nature to meet unexpected increases in service delivery costs. In accordance with State of Oregon budget laws, the contingency reserve must be an appropriated budget item, though funds may not be directly disbursed from the contingency reserve. Amounts must be reclassified into a spendable budget category through a supplemental budget process before disbursement. Also, budget law does not allow for a contingency reserve to be budgeted in a debt service fund. The contingency reserve policy must be at least equal to ten percent (10%) of the Fund's annual operational expenditures (which includes Personal Services and Materials & Services line items and excludes Debt Service, Transfers, and Capital Outlay line items).

6.2 The City shall maintain an unappropriated ending fund balance reserve to provide working capital for the post-budget period until sufficient revenues arise to fund post-budget period operations. In accordance with State of Oregon budget laws, the unappropriated ending fund balance reserve is not appropriated and cannot be spent in the current year unless a state of emergency is declared by the City Manager. The unappropriated ending fund balance reserve policy must be at least equal to five percent (5%) of the Fund's annual operational expenditures (which includes Personal Services and Materials & Services line items and excludes Debt Service, Transfers, and Capital Outlay line items).

6.3 Policies 6.1 and 6.2 do not apply to debt service, transfers, trust and agency, capital outlay line items, serial levy, temporary or certain special purpose funds.

7 Management of Fiscal Policy

7.1 Fiscal policies and changes in policies shall be approved by the City Council and adopted by resolution at a public hearing.

7.1.1 The Budget Committee shall be the authorizing body and recommending fiscal policy and changes in policy to the City Council. The City Manager shall prepare a report explaining the substantive impact of all recommendations and their impact on the City's operations, service levels and/or finances.

7.1.2 The Budget Committee shall conduct an annual review of the City's fiscal policies.

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

7.2.1 If the City Manager discovers a material deviation from policy, he/she shall report it in writing to the City Council and a copy shall be given to the Budget Committee at its next meeting.

7.2.2 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.

GLOSSARY OF TERMS

Ad valorem tax. A tax based on value (e.g., a property tax computed as a percentage of the value of taxable property).

Appropriation. Amount based on an adopted budget. Authorization for spending specific amounts of money for specific purposes during a specific period of time.

Audit. The annual review and appraisal of the city's financial accounts and fiscal affairs conducted by an independent accountant under contract.

Bonds. A written promise to pay a specified sum of money, call the "face value" or "principal amount", at a specified date in the future, together with periodic interest at a specified interest rate.

Bond rating. Designations assigned by credit rating agencies to give relative indications of credit quality.

Budget. A plan of financial operation embodying an estimate of proposed expenditures for a single fiscal year and the proposed means of financing them.

Budget committee. The fiscal planning board of the city, consisting of the city council plus an equal number of legal voters from the city.

Budget message. A general discussion of the proposed budget as presented in writing by the city's budget officer to the budget committee. The budget message contains an explanation of the proposed budget, the city's financial priorities and recommendations regarding financial policy for the upcoming fiscal year.

Capital improvement plan. An annually updated plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from a long-term work program or other capital needs. It sets forth each project or other contemplated expenditure in which the city is to have a part and specifies the resources estimated to be available to finance the projected expenditures. Project expenditures may include equipment or infrastructure such as fire trucks, land, buildings, streets, storm drains, etc.

Capital outlay. Expenditures made to acquire fixed asset items. These are items which generally have a useful life of one or more years, such as machinery, land, furniture, equipment or buildings.

City council. The governing board of the city, consisting of an elected mayor and four councilors.

Debt service. Payments to creditors, primarily the holders of municipal bonds. Debt service includes principal, interest and minor incidentals such as paying agents' fees.

Direct cost. Expenses which can be charged directly as a part of the cost of a product, service, department or fund, as distinguished from overhead and other indirect costs which must be prorated among several products, services, departments or funds.

Enterprise Fund. A fund used to finance and account for the acquisition, operation and maintenance of water, sewer and storm drain facilities which are supported by a users' charge.

Expenditure. The spending of money by the city for the programs and projects included within an approved budget.

Financial statements. Those financial statements, including notes thereto, necessary for the fair presentation of the financial position and results of operations of an entity in conformity with GAAP. The basic financial statements include a balance sheet, an "all-inclusive" operating statement, a budget comparison statement (for all governmental funds for which annual appropriated budgets are adopted), and a statement of changes in financial position (for proprietary funds, pension trust funds and nonexpendable trust funds).

Fiscal year. A 12-month period established as the period of operations for the city, and at the end of which the city determines its financial position and the results of its operations. The city's fiscal year begins July 1 and ends June 30.

Fund. A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and residual equities, or balances, and charges therein, are recorded and segregated to carry on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

General Fund. A fund used to account for most fiscal activities of the city, except for those activities required to be accounted for in another fund(s).

Generally accepted accounting principles (GAAP). Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to state and local governments is the Government Accounting Standards Board (GASB).

Official opinion (auditor's report). In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the city's financial information in conformity with GAAP or some other comprehensive basis of accounting.

Operating contingency. An appropriation of funds to handle unexpected events and emergencies which occur during the course of the fiscal year.

Ordinance. Written directive or act of a governing body (city council). Has the full force and effect of law within the city's boundaries, provided it does not conflict with a state statute or constitutional provision. See "Resolution."

Program. A group of related activities to accomplish a service or function for which the city is responsible.

Reserve. Money set aside for a specific purpose; an account used to earmark a portion of fund balance as not appropriated for expenditure; or an amount being legally segregated for a specific future use.

Reserve Fund. A fund established to accumulate money from one fiscal year to another for a specific purpose.

Resolution. An order of a governing body (city council). Requires less legal formality and has lower legal status than an ordinance. See "Ordinance."

Resources. Estimated beginning fund balances on hand at the beginning of the fiscal year, plus all anticipated revenues.