



Standard Administrative Policy and Procedures Manual

Title: **FINANCIAL POLICY**
Section: **GENERAL POLICIES**

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SECTION 1 - GENERAL PURPOSE

It is the expectation and the general understanding of the City Council and the citizens of Ankeny that the City conducts its financial affairs in a thoughtful and prudent manner. The following financial policies are established to provide the direction and limits within which the City is to fulfill its fiscal responsibilities. The policies are presented in the following categories: revenue policies, operating expenditure policies, reserves and contingencies, capital improvements planning, debt management policies, and financial reporting and accounting.

SECTION 2 - REVENUE POLICIES

Generally, the City of Ankeny's revenue policies are meant to furnish guidelines for determining the revenues necessary to provide basic municipal services to the community. To guard against the possibility of wide variations in any of its revenue sources, a primary goal of the City is to maintain a diversified, yet consistent revenue stream. An important factor in the City's ability to preserve a strong, uniform revenue stream is the diversity and growth of its tax base, which is largely dependent on the vitality of the area's economy. Thus, the City resolutely encourages economic development through the implementation of financial policies that create a favorable tax climate, while meeting service demands of businesses and residents.

General Revenue Policies

- A. A diversified, yet stable, revenue system will be employed to protect the City from possible short-term fluctuations in any of its revenue sources.
- B. A continuous effort will be made to obtain new revenue sources, such as local option sales tax, in order to maintain a balanced budget and to reduce the reliance on property tax as a major source of funding.
- C. Through community and economic development, a broader tax base will be pursued to increase tax revenue and help reduce annual fluctuation in the property tax rate.

- D. For budgetary purposes, revenue will be projected on a two year basis. Revenue receipts will be monitored monthly to ensure that revenue projection goals are being met.

Property Taxes

- A. The aggregate assessed value of improvements that receive property tax abatement under the Urban Revitalization Programs should not exceed 10% of the total assessed valuation of the City, including the value added by the improvement.
- B. In order to provide stability and consistency, the property tax levy should remain unchanged unless determined necessary through an annual review.
- C. The City's total levy rate shall be reviewed annually and evaluated using the fundamental underlying conditions, economic conditions, service level changes, State or Federal mandates or any other changes that affect the City's ability to provide basic City services or maintain sufficient cash reserves. The increase or decrease in the total levy rate shall not exceed the cumulative effect of the underlying changes. These changes shall be quantified and documented.

Urban Renewal - Tax Increment Financing Policy

Purpose

The City creates urban renewal districts to:

- A. Respond to an individual capital project or capital projects within designated areas;
- B. Support investment in an area believed to have development potential;
- C. Promote neighborhood revitalization;
- D. Generate money for infrastructure incentives to leverage community growth;
- E. Finance infrastructure construction and repair, and;
- F. Distribute the cost of local development incentives among the various taxing units benefiting from a long-term increase in property tax revenues.

Guidelines

The City shall adhere to Chapter 403 of the Code of Iowa, in the creation of urban renewal plans and subsequent implementation of those plans. The powers granted in this chapter constitute the performance of essential public purposes for the State of Iowa and the City of Ankeny. The powers conferred by this chapter are for public uses and purposes for which public money may be expended and for which the power of eminent domain and police

power may be exercised; and that the necessity in the public interest for these provisions is declared as a matter of legislative determination.

The assessed value of property within each urban renewal district, which is subject to a division of revenue from taxation - tax increment financing (TIF), is determined by the Polk County Assessor each year.

The City uses TIF to leverage economic activity, offset taxpayer burden, build public improvements and finance public investment in infrastructure deemed necessary for community growth.

Process

- A. Notify all affected taxing jurisdictions 30 days prior to filing certification with the Polk County Auditor. The amount of value reservation required for the next fiscal year is due annually by December 1st. And, upon written request from a taxing jurisdiction, meet and confer with that jurisdiction on the intended reservation.
- B. Taxable valuation reservation will be based upon the debt and contractual obligations certified with the Polk County Auditor.
- C. Prepare and distribute exhibits, including formulas and calculations of TIF dollars.

Restrictions

- A. Distribution of Incremental Property Taxes No less than 40% of the incremental value from all urban renewal districts combined will continue to be released to all taxing jurisdictions.
- B. Sunsets The City establishes sunset dates for all TIF districts as provided in Chapter 403.17(10), Code of Iowa, as follows: in an urban renewal area designated an economic development area in which no part contains slum or blighted conditions, the plan shall be limited to twenty years from the calendar year following the calendar year in which the city first certifies to the county auditor the amount of any loans, advances, indebtedness, or bonds which qualify for payment from the division of revenue provided in the Code of Iowa, Chapter 403.19.
- C. Powers of Municipality The City shall have all the powers necessary or convenient to carry out and effectuate the purposes and provisions of Chapter 403.6 and the additional powers granted in Chapter 403.12 of the Code of Iowa.
- D. Fluctuation/Reserves Tax increment reserves will be established to help offset major fluctuations in the reservation requirements. Funds held in reserves will be specifically identified and held for a future debt or contractual obligation.

Municipal Enterprises

- A. User charges and fees will be established at a minimum level sufficient to cover all costs of providing the service, including operating, debt service, capital and replacement expenses. Where the cost of providing quality service exceeds a reasonable level of user fee or charge. The Council will determine the appropriate level and source of subsidy, but no more than 30% of an enterprise activity shall be subsidized by property tax revenue.
- B. User fees should be re-evaluated and re-calculated, if necessary, annually to reflect cost of service and to guarantee that they remain appropriate and equitable.
- C. All utilities, including water, sewer and storm water enterprise programs, should be fully self-supported through user fees or charges.

Park & Recreation Fees

- A. The City will attempt to cover at least 45 percent of the total cost of recreation programming by charging fees for recreation activities and use of city facilities and equipment.
- B. The City will establish and maintain the following fee categories and related cost recovery goals:
 - 1. Maximum Fee Support: Program fees should fund 80% or more of the cost for the following programs: special instruction classes, competitive swimming, recreation trips and outings, adult sport leagues, major special events, latchkey services, and golf.
 - 2. Partial Fee Support: Program fees should fund 33% to 80% of the cost for the following programs: preschool activities, introduction to sports (primary grades), outdoor recreation, special craft workshops, and aquatics.
 - 3. Minimum Fee Support: Program fees should fund up to 33% of the cost for the following programs: community centers and activities, youth centers and activities, minor special events, playground activities, junior athletics, non-sponsored outdoor recreation, and co-sponsored special interest activities.
- C. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special use areas and related equipment for activities not sponsored or co-sponsored by the City. Such charges will generally conform to the fee support categories listed above.
- D. A vendor's charge of 10% of gross income will be assessed to individuals or organizations using City facilities for money-making activities.
- E. Fees or charges may be waived only when the City Manager determines in writing that an undue hardship exists.

Federal & State Assistance

All available funding from federal and state sources will be pursued to finance appropriate programs, services and capital improvement projects, including those mandated by statute.

SECTION 3 - OPERATING EXPENDITURE POLICIES

Operating expenditures must meet the City's requirements to provide services within the framework of available revenues. Fiscal control and long range financial planning is necessary to guarantee that the City's current and future finances remain sound. The following operating expenditure policies guide the evaluation and control of the City's appropriations and expenditures.

General Policies

- A. Expenditure projections for a two year period will be developed on an annual basis. Projections should include estimates of anticipated operating costs for programmed capital improvement projects, equipment and capital facilities replacement and maintenance schedules.
- B. Current expenditures should be paid with current revenues or excess cash reserves.
- C. Current expenditures should not be balanced by postponing needed expenditures, accruing future revenues, issuing short term debt, or paying for routine operating costs out of minimum cash reserves.
- D. The operating budget should provide for adequate maintenance of capital assets and equipment and provide for their orderly replacement.
- E. All retirement systems should be financed in an actuarially sound manner in accordance with state law to achieve the goal of systematically funding future liabilities.
- F. The City will encourage the provision of services through the private sector and other public agencies whenever and wherever greater efficiency and effectiveness can be achieved.
- G. The City will maintain risk management and safety programs to reduce costs and minimize losses.

SECTION 4 - RESERVES AND CONTINGENCIES

The establishment and maintenance of adequate cash balances and reserves allow the City financial flexibility and security and is recognized as an important factor considered by bond rating agencies and the underwriting community when reviewing City debt issuance. Along with maintaining the City's credit worthiness, such cash balances and reserves provide the means to handle economic uncertainties, local disasters and other unanticipated financial

hardships, as well as, to meet cash flow requirements. In addition to the designations noted below, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years that are carried forward into the new year including debt service reserve requirements, reserves for encumbrances and other reserves or designations required by contractual obligations or generally accepted accounting principles.

General Policies

- A. A positive cash balance should be shown in the general fund at the end of the fiscal year. At a minimum, the balance should be 25% of general fund appropriations for the succeeding fiscal year in order to provide adequate cash flow and emergency cash funding.
- B. Restricted cash reserves should not be used to finance routine operating expenses that exceed budgeted levels.
- C. Cash reserves should not be used to finance capital projects, unless those reserves were specifically earmarked for a project.
- D. Revenues will equal or exceed expenditures for each budget year unless there are funds available in excess of the cash reserves requirements of this policy. Excess cash reserves may be used to balance revenues and expenditures as long as the minimum cash reserve requirements of this policy are met.
- E. Short-term borrowing, such as tax anticipation notes, in order to meet the requirements in a) through d) of this section is prohibited.
- F. The City's annual budget is considered balanced if the cash reserve requirements, the working capital requirements and the revenue and expenditure requirements of this policy have been met (Sections 2-4).

Working Capital

- A. The City will assemble sufficient cash reserves in operating funds for working capital so that short term cash flow financing is not required. The cash reserve will be no less than 25% of the next year's operating budget, the same level as required for the general fund. Operating funds are defined as the general, road use tax, employee benefits and enterprise funds.
- B. Short-term borrowing, such as tax anticipation notes, in order to meet the preceding working capital requirements is prohibited.

Equipment Replacement Reserve Fund

The City will establish and maintain an equipment replacement reserve fund to provide for the scheduled purchase of vehicles and equipment, and will annually appropriate funds to it to provide for the timely upgrading and replacement of vehicles and equipment. The amount

added to this fund by annual appropriation will be the amount required to maintain the fund at the approved level after credit for the sale of surplus equipment and interest earned by the fund. It is the City's intent that the reserve fund replaces the City's need to borrow, through capital lease purchase agreements, for vehicle and equipment acquisitions and other improvements.

Capital Project Reserve Fund

The Council may designate specific fund balance levels for future development of capital projects. In order to help maintain the fund at approved levels, the Council may annually transfer to the fund any balance from operating funds in excess of the cash reserve requirements within this policy.

SECTION 5 - CAPITAL IMPROVEMENTS PLANNING

Policies for the capital improvements program are intended to encourage planning for future growth and infrastructure repair within the framework of the City's financial policies.

General Policies

- A. The City should prepare and annually update a five-year capital improvement program (CIP). This program should identify future capital project expenditures made necessary by anticipated changes in population, infrastructure replacement and extension, economic base and/or land use.
- B. The operating and maintenance cost of a proposed capital improvement shall be calculated to determine a "true cost" of each improvement and assist in programming of future overall revenue requirements of the City.
- C. The capital improvements plan will include the costs, timing and sources of funding and the estimated impact of future revenue requirements for each project. These calculations shall reflect adjustments for inflation.
- D. The capital improvements plan should maintain the City's assets at a level adequate to protect the City's capital investments, minimize future maintenance and replacement costs, and provide for an adequate level of service.
- E. The City's annual capital improvements budget should be based on the five-year CIP. The budget will include final calculations of revenue sources and related impacts on future availability of revenue for additional projects.
- F. The annual expenditures identified in the CIP should be fully funded from financial resources that are anticipated to be current and available.
- G. Grants and similar forms of intergovernmental assistance should be used to finance only those projects identified in the CIP or other planning documents as the community needs.

- H. A fiscal impact analysis should be performed on all projects for which the City's financial participation is requested by the private sector. This analysis should identify anticipated direct and indirect public costs and revenues associated with the proposed project.

Community Projects

A project organized by a civic, nonprofit or community group; primarily funded through private donations; constructed on city-owned property and upon completion, to be owned and maintained by the city.

Guidelines

- A. Project organizers must consult with a designated city representative on the concept, planning, financing and construction components of the project.
- B. Project concepts must be presented to the City Council and receive approval the project meets the definition of a community project.
- C. Projects must be included in the City Council approved five-year capital improvement program.
- D. Projects initiation is at the discretion of the City Council and will be determined based on available funding.
- E. Project organizers must present the final funding plan to the City Council. City Council approval of a resolution will be required to initiate the project.
- F. Project organizers must submit to the City periodic financial reports on the status of the project funding.

SECTION 6 - DEBT MANAGEMENT POLICIES

The issuance of debt is a necessity for the financing of many major capital improvements. Determining the method and timing for financing is subject to numerous considerations. The City's debt policies are intended to encourage conservative debt management while maintaining the flexibility to use the various financing mechanisms that are available to the City.

The City's overall tax levy must be reflective of the impact of debt issuance. Alternative revenue sources will be used when practicable to maintain an overall tax rate consistent with the general philosophy of municipal service determined by the City Council.

The cost of financing through the issuance of debt is also affected by the strength of the City's financial position. Bond ratings and investor's bids are influenced by the City's debt management policies, as well as, the overall financial policies of the City. It is the City's goal

to maintain debt management policies that keep outstanding debt within manageable levels and which maintain the City's flexibility to issue debt in the case of unusual circumstances beyond the City's control.

General Policies

- A. Long-term borrowing shall be limited to capital improvements projects that cannot be financed from current revenues and to capital equipment with a useful life of 20 years or greater and a purchase cost of \$250,000 or greater. Long-term debt shall not be used for current operations.
- B. Any capital improvement projects or capital equipment financed through bonds should be financed for a period not to exceed the expected useful life of the project or equipment.
- C. Total debt outstanding, including overlapping debt, will be considered when planning additional debt issuance.
- D. The City's share of paving projects, including the cost of over-width or over-depth paving of major streets, should be financed with road use tax funds or other revenue sources when funds are appropriate and available.
- E. The City's share of utility projects, including the cost of over-sizing of water, sewer and storm water mains, should be financed with utility funds and other revenue sources when funds are appropriate and available.
- F. The use of general obligation bonds for projects does not dismiss the potential of pro rata payment for debt service by specifically benefited funds such as tax increment financing, road use tax, water, sewer or storm water.
- G. Financing requirements will be reviewed annually. The timing for financing will be based upon the City's need for funds, market conditions and debt management policies.
- H. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.
- I. Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered if and when there is a net economic benefit of the refunding or the refunding is essential in order to release restrictive bond covenants, which affect the operations and management of the City.
- J. The City will annually review opportunities to convert projects historically utilizing pay-as-you-use financing (debt) to pay-as-you-go financing (cash) in an effort to reduce long-term debt.

Debt Limitations

- A. Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, the type of debt being issued, and the nature and type of repayment source. Moreover, to the extent possible, the City will design the repayment of its overall debt so as to rapidly recapture its debt capacity for future use. The average maturity of general obligation debt should not exceed fifteen years.
- B. Bond issues should be scheduled so that the City's total debt service schedule has relatively level principal and interest payments over the life of the debt. "Backloading" of costs will only be considered when such structuring is beneficial to the City's overall amortization schedule.
- C. Total unabated general obligation debt service in any year should not exceed 50% of general fund revenues.
- D. Total unabated general obligation debt service will follow the establishment of an annual target that takes into consideration taxable valuation growth, the capital improvement program and the City's ability to maintain a stable or declining debt service levy rate.
- E. Total general obligation indebtedness should not exceed 75% of the limit prescribed by State statute, which is currently 5% of actual property values within the City.
- F. Cash balances and reserves in excess of \$100,000 may be used to meet debt service obligations.
- G. Mindful of the need to adequately program and fund necessary capital improvements, the City will attempt to maintain general obligation bond principal per capita debt levels at rates reflective of infrastructure needs, population growth, and bond rating standards.
- H. All self imposed debt limitations will not take into account debt issued as a consequence of voter approved bond referendums.

SECTION 7 - FINANCIAL REPORTING AND ACCOUNTING

General Policies

- A. The City should establish and maintain a high standard of accounting practices. To that end, the City will continue to use the latest edition of *Governmental Accounting, Auditing, and Financial Reporting (GAAFR)* as its source of generally accepted accounting principles (GAAP).
- B. The City's relationship with its independent public accounting firm will be reviewed at a minimum every five years.

- C. The City will maintain its budget and accounting system on a cash basis which will be the basis for all interim, internal, and state reporting with the exception of the Comprehensive Annual Financial Report which will be produced in accordance with GAAP.
- D. The City will adhere to a policy of full and open public disclosure of all financial activity and information.

Reports

- A. The City will produce a Comprehensive Annual Financial Report in accordance with GAAP.
- B. The City will maintain a budgetary control system and will produce interim financial reports that measure actual revenues and expenditures compared to budgeted revenues and expenditures.
 - 1. Regular monthly and annual reports should present a summary of financial information by major fund and activity type.
 - 2. Monthly reports should be provided presenting actual cash position and investment performance.
 - 3. Each year, the City will employ an independent public accounting firm to perform the annual audit and will make the audit available to all interested parties.
 - 4. The City will comply with all federal and state audit and review regulations, including OMB A-133 single audit and SPOC review requirements.