

**MEMORANDUM  
FINANCE DEPARTMENT**

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**TO:** Randall Tweet, Interim City Manager  
**SUBJECT:** Financial Policies Revision

**Number:** 037-16  
**Date:** 12-06-16

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During the preparation of the CY 2017 proposed budget, Finance staff reviewed the City's Financial Policies which are included within the annual budget document. The Policies were originally adopted by Council on August 6, 1987 and the last revision was approved on November 18, 2005.

The Council reviewed the proposed revisions on November 21, 2016. Some of the changes resulted from terminology related to new accounting standards and other miscellaneous changes. Some specific changes included:

General Fund Cash Balance and Excess General Fund Balance -- these two sections were combined and use of excess general fund balance was clarified.

Library Fund -- The goal of fund balance at the end of each fiscal year was revised from 120 days to 90 days.

Reserves -- The directive of 1% contingency in the general fund was amended to be a goal rather than a directive.

Definition of Capital Assets -- The threshold for capitalization was increased from \$10,000 to \$25,000 for assets with an estimated useful life in excess of three years.

Actuarial Assumptions for Police and Fire Pension Funds -- Was amended to include the new requirement that actuarial assumptions be reviewed and adjusted periodically.

**Recommendation:**

Council approve the draft revisions to city financial policies.

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**Submitted by:** Stephanie Masson, Finance Director  
**Approved:** Randall Tweet, Interim City Manager

# **Financial Policies**

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In the summer of 1987, the City Manager recommended the appointment of a Financial Planning Task Force comprised of citizens with financial management expertise from the private sector. The job of the task force was to review City financial information and make recommendations to the City Council and City Manager that would help improve financial planning and lead to a more stable financial future for the City.

Although the majority of the Task Force's recommendations relate to the General Fund which comprised 30% of the overall 2004/05 City budget, a number of recommendations were directed to the areas of debt management, accounting, and revenues because they also impact the City's financial position.

The following recommendations were adopted by the Task Force and City Council. The consensus of the Task Force was that the City of Rock Island could improve its financial stability, enhance its financial planning process, and improve its credit worthiness if these policies were approved and implemented. The original financial policies were presented to and adopted by Council on August 6, 1987. Updates to the financial policies, that included the policy on excess General Fund balance, were approved by Council in December, 1989. Updates to the financial policies, that included the policy on excess Park, Playground, Library, Health Insurance and Self-Insurance fund balances, were approved by Council in November, 1994. Additionally, Council adopted a policy on the allocation of gaming revenues that requires an annual review of the prior year allocation decision. This policy was revised on November 13, 2000 and again on November 18, 2005. In November 2016, financial policies were reviewed and language was updated for accounting standard changes, Library fund balance recommendation was changed to align with the general fund, capitalization threshold was amended along with miscellaneous other reference changes.

## **Cash flow borrowing**

The City of Rock Island has in past years issued tax anticipation warrants and used inter-fund borrowing to pay expenses incurred until the first property tax receipts were received in June. It is the goal of the City of Rock Island to maintain a sufficient cash balance in the General Fund to eliminate the need for internal or external cash flow borrowing.

## **General fund cash balance and Excess general fund balance**

It is the policy of the City of Rock Island to establish and maintain sufficient cash in its General Fund so a positive cash balance and fund balance is maintained at the end of each fiscal year. It is the goal of the City of Rock Island to maintain a positive unassigned General Fund balance at the end of each fiscal year at a level equal to an amount representing 90 days of budgeted operating expenditures. Any General Fund balance in excess of this requirement that has not been assigned to fund the general fund operations of the next fiscal year will be transferred to the Capital Improvements Fund at the completion of the annual audit.

## **Fund balance – Library fund**

It is the policy of the City of Rock Island to establish and maintain sufficient cash in the Library fund so a positive cash balance and fund balance is maintained at the end of each fiscal year.

It is the goal of the City of Rock Island to maintain a positive unassigned Library fund balance at the end of each fiscal year at a level equal to an amount representing 90 days of budgeted expenditures for the following fiscal year.

### **Net position - Health Insurance fund**

It is the policy of the City of Rock Island to establish and maintain sufficient cash in its Employee Health Benefit fund so a positive cash balance and net position is maintained throughout each fiscal year.

It is the goal of the City of Rock Island to maintain a positive unrestricted Employee Health fund net position at the end of each fiscal year equal to, a minimum, 25% of the annual maximum liability with the goal of maintaining at least 50% of the maximum liability as established for the City by its aggregate reinsurer each year.

### **Net position - Self Insurance fund**

It is the policy of the City of Rock Island to establish and maintain sufficient cash in its Self-Insurance fund so a positive cash balance and net position is maintained throughout each fiscal year.

It is the goal of the City of Rock Island to maintain a positive unrestricted Self-Insurance fund net position at the end of each fiscal year equal to the average annual incurred losses for the preceding five years.

### **Net position – Enterprise funds**

The City of Rock Island business-type activities include waterworks, wastewater treatment, stormwater utility, solid waste, and sunset marina. It is the policy of the City of Rock Island that these business-type activities are intended to be self-supportive through fees and charges set to recover all operating and capital costs including depreciation and debt service. The city will set fees and user charges at a level that fully supports the total direct and indirect costs of the activities. Indirect costs include the replacement of the capital assets of the fund. It is the goal of the City of Rock Island to set rates for enterprise operations at a level that will result in positive changes in net position and provide positive unrestricted net position each year.

### **Net position – Park fund**

The park fund is classified as an enterprise fund. The park fund also includes park and recreation activities that are supported by user fees and property taxes. It is the goal of the City of Rock Island to set user fees for park and recreation activities at a level that will provide affordable park and recreational opportunities for city residents and minimize property tax support for those services.

It is the policy of the City of Rock Island that park activities including Highland Springs golf, Saukie golf, Rock Island Fitness and Activity Center (RIFAC) and Whitewater Junction aquatic center are business-type activities and are intended to be self-supportive through fees and charges set to recover all operating and capital costs including depreciation and debt service. The park fund will set fees and user charges at a level that supports the total direct and indirect costs of these activities. Indirect costs include the replacement of the capital assets of the fund. It is the goal of the City of Rock Island to set fees and user charges at a level that will result in positive net income for the separate enterprise operations, offset the costs of the non-enterprise park and recreation activities, and provide positive unrestricted net position each year.

### **Revenues**

The City will make every effort to maintain a diversified and stable revenue base to protect its operation from short-run fluctuations in any one revenue source.

The City will systematically review its revenue sources annually, based upon past experience and anticipated future trends. Based upon this review, the City will project revenues and expenditures for a five year period

and will update this projection annually.

The City will follow a reasonable but aggressive policy of collecting revenues, keeping customer accounts current, and collecting fees as defined by ordinance.

The City will set fees and user charges for the waterworks, wastewater treatment, stormwater utility, solid waste, and sunset marina enterprise funds at a level that fully supports the total direct and indirect costs of the activity. Indirect costs include the replacement of the capital assets of the fund.

The City will calculate the allocation General Fund administrative costs to each fund based upon the benefits that each fund receives for the services. Each year the City will recalculate the full cost of General Fund administrative services to identify the impact of inflation and other cost increases of the allocation.

### **Use of revenue from riverboat gambling**

Revenues will be allocated for the following purposes based on priority decisions by City Council:

- (1) Capital improvements.
- (3) As directed by Council, equipment purchases or service contracts in excess of \$10,000.
- (2) Economic development projects that produce jobs, increase tax revenue and/or enhance the quality of life.

Since the amount of gaming revenue projected is very uncertain, allocation of revenues received during the current fiscal year will be made during the CIP and budget process for the following fiscal year. This will allow allocation decisions to be made in conjunction with other policy decisions about the Capital Improvements Plan, the annual operating budget and the property tax levy.

This policy should be reviewed and modified, if necessary, prior to the adoption of the annual budget. (Note: this policy was updated by City Council on October 15, 2001)

### **Accounting, auditing, and financial reporting**

The accounting system will maintain records on a basis consistent with accepted standards for local governmental accounting. Management and support staff in all City departments will be provided access to the City's financial software system. Regular monthly financial reports will be prepared. A financial management report presentation to Council will occur quarterly.

The Finance Director will determine if a portion of fund balance should be assigned. This determination will be based upon Council directives and goals. The City will spend the most restricted dollars before less restricted, in the following order: 1) Nonspendable (if funds become spendable) 2) Restricted 3) Committed 4) Assigned 5) Unassigned.

An independent public accounting firm will perform an annual audit and will publicly issue a financial report and opinion. The annual report will conform to guidelines established by the Government Finance Officers Association (GFOA) for annual reports and will be submitted to the GFOA for the Certificate of Achievement for Excellence in Finance Reporting.

### **Reserves**

The City will establish a contingency reserve to provide for unanticipated expenditures of a nonrecurring nature, or shortfalls in projected revenues of the General Fund. This reserve goal will be 1%.

The City will annually appropriate funds for the Equipment Replacement Fund to provide for timely replacement of equipment.

### **Five year projection**

A five year General Fund forecast should be updated annually and submitted to the Mayor and City Council for their review. It can be an important financial tool that indicates the future financial condition of the City, and actions should be planned to avoid financial deterioration.

Economic Development efforts that result in an increased tax base are very important to obtain long term improvement in tax revenues without raising tax rates.

Tax and fee increases as well as service reductions should be considered as options to address financial deterioration. Care should be taken not to put the City in a significantly disadvantageous position with its neighboring cities, either because of substantially higher taxes or because of a lower level of service.

Continued efforts should be made to reduce the costs of providing City services through productivity improvement measures.

### **Capital debt and management**

Any capital project financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project. The City should keep the final maturity of general obligation bonds at or below twenty years. Total general obligation debt payable from property taxes should be limited to 2.0 percent of the market valuation of taxable property.

The City will not use long-term debt for current operations.

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.

The City will make all capital improvements in accordance with an adopted five-year capital improvement program. The plan will be updated annually.

The City will use self-supporting debt whenever possible.

The City will examine alternative financing vehicles for local improvements including the use of special service area financing.

The City will strive to maintain an investment grade bond rating.

### **Definition of capital assets**

Capital assets include property, plant, equipment and infrastructure assets (e.g. roads, bridges and similar items). They are budgeted in the applicable governmental or business-type fund. Capital assets are defined by the City of Rock Island as assets with an initial, individual cost of more than \$25,000 (\$10,000 was threshold through 12/31/16) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is not included as part of

the capitalized value of the assets constructed. Property, plant and equipment of the City of Rock Island, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	10 to 40
Improvements other than buildings	5 to 40
Machinery and equipment	3 to 20
Waterworks system	5 to 40
Wastewater treatment system	10 to 40
Bridges and approaches	10 to 67
Marina facilities	10 to 20
Infrastructure	50 to 100
	(1969 to present = 50 years)
	(before 1969 = 100 years)

### **Actuarial assumptions for police and fire pension funds**

Adequate funding, as determined by a State or independent actuarial study, will be provided for Police and Fire pension funds. Actuarial assumptions will be reviewed and adjusted periodically, with the goal of increasing the funded ratio over time but balanced with fiscal sustainability of the City.

The interest rate assumption for the actuarial calculation of the police and fire pension property tax levies is set at 7.5% and the 2040 funding percentage at 100% beginning with the December 2011 property tax levy.