

Subject: Fiscal Management Policy
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City of Woodstock

FISCAL MANAGEMENT POLICY

The Fiscal Management Policy is intended to assist the City and City staff in preparing the Budget and help communicate to residents and the general public how the City Council's goals are being addressed and policies implemented.

OVERVIEW

The City develops and maintains a budget and financial forecast that serves as the plan by which the City Council sets financial policy. Through the annual budget, services are implemented. The budget provides the basis for the control of expenditures. For the City, direction for the budget emanates from many distinct sources. Federal and State legislation provide the basic legal requirements and time lines for the budget process. The City Council's vision, mission, goals, policies and procedures provide additional direction and respond to the needs of the community.

BUDGET

PRINCIPLES FOR BUDGET PLANNING

The City provides a wide variety of services to the residents of the community. It is the responsibility of the City Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community. To aid in planning for the allocation of resources to meet the good of the whole community, the City has set forth the following budget planning principles:

- a) The City should strive to attain the lowest possible interest rates on debt in order to minimize the cost to taxpayers and users of City services.
- b) The City should maintain adequate reserve levels to ensure minimal loss of service to the community should there be unforeseen reductions in revenues or a catastrophic occurrence.
- c) Support services provide the management, guidelines, and operational assistance to carry out the provision of primary and secondary services. Resources should be allocated to support services to support the level and quality of primary and secondary services expected and desired by the community.
- d) Any adjustment to the existing budget shall take into account the effect that such adjustment would have on future budget resources.

- e) By statute, the budget must be balanced. Revenues must equal or exceed expenditures. As a general rule, current operating revenue needs to be sufficient to support current operating expenditures.
- f) Debt or bond financing will not be used to finance current operating expenditures.
- g) Every effort will be made to maintain existing levels of services.
- h) Enterprise funds will be self-supporting, pay their own way and provide for their own improvement and expansion needs.
- i) Each fund will budget for and pay its proportion of shared costs and services.
- j) In addition to its annual operating budget, the City will prepare five-year budget projections and an analysis of past financial trends to obtain a comprehensive picture of the impact of decisions involving the current year's budget or other financial plans.

BUDGET PREPARATION

The City operates under a fiscal year that begins on July 1st and ends June 30th. A proposed budget shall be prepared by the City Manager (or designee) with the participation of all of the City's Department Directors within the provisions of the City Charter. The City will cover current expenditures with current revenues. The City will strive to avoid budgetary procedures that cover current expenditures at the expense of meeting future years' expenditures, such as postponing expenditures or accruing future years' revenues.

- a. The budget shall include four basic segments for review and evaluation. These segments are:
 - 1. Revenues
 - 2. Personnel costs
 - 3. Operations and maintenance cost
 - 4. Capital and other (non-capital) project costs
- b. Departments develop performance and expenditure requests for the next fiscal year.
- c. During the months of March and April, the City Manager (or designee) reviews all departmental operations and budget requests in order to propose a recommended balanced budget.
- d. At least 30 days prior to the fiscal year commencing July 1st, the City Manager (or designee) submits to City Council a proposed operating budget for all operating funds. The operating budget includes recommended expenditures and the means for financing them.
- e. A series of workshops and public hearings are held before making any final changes to the City Manager's (or designee's) recommended budget.
- f. The annual budget is formally adopted by City Council before July 1st.

CHANGES TO ADOPTED BUDGET

Georgia Law, O.C.G.A. §36-81-3 establishes the legal level of budgetary control at the department level. Within the overall budget limitations, authority is delegated to the City Manager. When acting on the authority delegated by the City Manager to the Chief Financial Officer, intra-departmental transfers of appropriation and revenue anticipation may be approved as deemed necessary. The expenditures of City operating funds cannot exceed the budgeted appropriations for their respective fund. In certain cases, however, adopted budgets may be increased, decreased, or amounts transferred between funds in accordance to the City's Budget Amendment Policy (CPM # 200-0008).

LAPSED APPROPRIATIONS

All appropriations not spent or unencumbered at the end of the fiscal year lapse into the fund balance applicable to the specific fund, except for:

- a. **Capital Projects** - appropriations for capital projects which do not lapse until the project is completed and closed out; and
- b. **Grant Funds** - appropriations for federal or state grants which do not lapse until the expiration of the grant.

BUDGET REPORTING

Monthly financial reports will be prepared or made available by the Chief Financial Officer to enable the Department Directors to manage their budgets and to enable the Chief Financial Officer to monitor and control the budget as authorized by the City Manager. Summary financial and budgetary reports will be presented to the City Council monthly. Such reports will be in a format appropriate to enable the City Council to understand the overall budget and financial status.

BASIS OF BUDGETING

The City shall adopt budgets in conformity with Generally Accepted Accounting Principles for all budgeted funds. All governmental funds shall use the modified accrual basis of accounting and proprietary funds shall use the accrual basis of accounting for budgeting purposes.

REVENUE

The City will try to maintain a diversified and stable revenue system to shelter it from unforeseeable short-run fluctuations in any one-revenue source.

1. **Review and Projections.** The City reviews estimated revenue and fee schedules as part of the budget process. Major revenue sources in the general fund are property tax, state and federal revenues, investment earnings, and transfers from other funds. Conservative revenue projections are made for the budget term. The City will project revenues for five years and will update the projections annually. The projections are monitored and updated as necessary.
2. **Sources.**
 - a. **Property Tax:** The City's major source of revenue for governmental activities and more specifically for programs within the General Fund is the Property Tax. The City will monitor the property tax by tracking the percentage that comes from real property growth and real property revaluation. Significant changes to these percentages will be reflected in revenue projections as an indicator of future economic activity.
 - b. **User Fees:** Each year, the City will recalculate the full costs of activities supported by user fees to identify the impact of cost increases or decreases.
 - c. **Service Fees:** the City may assess an administrative service fee from the General Fund to any other fund, based upon documentation and/or an outside independent study. This assessment will be based upon a percentage of the operating revenues, or services provided to the fund and shall be used to reimburse the General Fund for the administrative and support services provided to the assessed fund.

- d. One-Time Revenues: From time to time, the City may realize one-time Revenues as they are presented; however, the use of these funds shall not be used for reoccurring expenses.

FINANCIAL STRUCTURE

The financial transactions of the City are budgeted and recorded in individual funds. A fund is an independent financial and accounting entity. It is a set of interrelated accounts used to record revenues and expenditures associated with a specific purpose.

GENERAL FUND

The General Fund is the largest and most diverse of the City's operating funds. It includes all resources not legally restricted to specific uses.

SPECIAL REVENUE FUND

Special Revenue Funds are used to account for the proceeds of revenue sources which are restricted by law or administrative action to expenditures for specified purposes.

CAPITAL PROJECTS FUND

Capital Project Funds are used to account for financial resources for the acquisition, renovation or construction of major capital facilities and improvements.

DEBT SERVICE FUND

The Debt Service Fund is used for the payment of principal and interest on long-term debts. The two major sources of revenue for the Debt Service Fund come from property tax levied for debt service and the Special Purpose Local Option Sales Tax (SPLOST).

PROPRIETARY FUNDS

The Proprietary Fund (also known as enterprise fund) classification has been used to account for various services for which there exists a significant potential for financing through user charges. The goal of all enterprise accounts is self-sufficiency. Toward this end, funds that are not recovering at least 75% of costs shall incrementally adjust their rate structures to achieve a positive income position. Those operations which cannot achieve a positive income position within a five-year time frame may be accounted for as subsidized operations and not as Proprietary Funds.

INTERNAL SERVICE FUNDS

Internal Service Funds account for certain support services provided to other funds and external agencies. By imposing charges to the users of the services, they recover their costs. The Finance Department may recommend the creation, continuation, or ending use of an internal service fund based on documented customer needs and financial benefits.

The Internal Service Funds operate under the following guidelines.

1. Accounting guidelines limit internal service fund charges to the recovery of the cost of the service, including depreciation, rather than making a profit. Each fund's prior year financial statements and estimates of future costs form the basis for the calculation of charges.
2. Fund managers should set charges at a level to avoid adverse financial impacts on their customers. Fund customers and independent experts review and make

recommendations about the level of charges. The Finance Department coordinates this analysis.

3. Internal service funds should compete with similar services offered by the private sector. The City staff will compare rates each year. If not competitive with the private sector, the Finance Department will analyze whether the private sector should provide the service.
4. Internal service funds may build up reserves. Customer-approved master plans and independent third-party actuarial reviews guide the level of reserves. Fund managers may spend reserves only for their approved purpose.
5. The City may buy equipment and facilities for the internal service funds.
6. Internal service funds operate under the same guidelines and constraints as the General Fund and other governmental funds of the City.

CAPITAL IMPROVEMENTS

The City will prepare a multi-year capital improvement plan which will be updated annually. This plan will assist in the planning, acquisition, and financing of capital projects. A major capital project generally is defined as an expenditure that has an expected useful life of more than three years with an estimated total cost of \$50,000 or more, or an improvement/addition to an existing capital asset. Examples include building/infrastructure construction, park improvements, streetscapes, computer systems, land acquisitions, heavy duty trucks. Major capital projects will be budgeted in the Capital Projects Fund consistent with all available resources. With the involvement of the responsible departments, the Finance Department will prepare the capital budget in conjunction with the operating budget.

The City will operate under the following capital improvement operating guidelines:

1. The City will identify estimated costs and funding sources for each capital project requested before it is submitted to the City Council;
2. All City capital improvements projects will be administered in accordance with all state and federal statutes.
3. All City capital improvements will be constructed and expenditures incurred for the purpose as approved by the City Council;
4. The City will use the most prudent funding source available at the time to fund capital projects.
5. Funding for operating and maintenance costs for approved capital projects must be identified at the time projects are approved.

FINANCIAL FORECASTING

Concurrent with its annual budget cycle, the City shall prepare a five-year financial forecast. The forecast will be based on the financial policies/procedures established by the City Council and City officials. The City has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of those services desired by the public. Annual budgeting alone can fail to serve the long-term public interest if short-term priorities reduce resources that may be required to meet imminent needs that fall beyond the one-year budget scope. By identifying long-term issues and assessing resources, the five-year financial forecast provides the City Council and City staff with the

necessary information to create continuity between annual budget cycles and to meet the long-term needs of the City.

The forecast's purpose is to provide the fullest picture of the City's financial future so that current policies and funding can continue to support high-quality service delivery and opportunities in the future. As such, the City shall strive as within its forecast to:

- a. Deliver quality services efficiently in an affordable, economical and cost-effective basis providing full value for each tax dollar.
- b. Maintain an adequate financial base to sustain a sufficient level of services, thereby preserving the quality of life for City residents.
- c. Have the ability to withstand local, regional, and State economic shocks, adjust to changes in the service requirements of our community, and respond to changes in priorities and funding as they affect the City's residents.
- d. Maintain a high bond credit rating, ensuring the City's access to the bond markets and providing assurance to taxpayers that their City is well-managed and financially sound.

City financial policies and procedures shall provide the framework for financial planning and decision-making by the City Council and City staff. Within this framework, the City shall prepare estimates of revenues, operating and capital expenditures, and debt service for every year of the five-year forecast. The revenue forecast will only include those revenues that are anticipated to be sustainable over the five-year period. Expenditure projections shall include anticipated operating impacts of the adopted capital improvement program. The forecast shall establish key assumptions underlying the projections and identify those variables which may cause the projections to change.

The Chief Financial Officer will submit the financial forecast to the City Manager at least semi-annually to be reviewed and potentially modified as required. This forecast will serve as the basis for budget development for the following year and for other financial planning activities.