

# Appendix



# Comprehensive Financial Management Policy

## Purpose

The Comprehensive Financial Management Policy assembles all of the City's financial policies in one document. They are a tool to ensure that the City is financially able to meet its immediate and long-term services objectives. The individual policies contained herein serve as guidelines for both the financial planning and internal financial management of the City.

The City of Brookings is accountable to its citizens for the use of public dollars. Municipal resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. These policies safeguard the fiscal stability required to achieve the City's goals and objectives.

## Objectives

In order to achieve its purpose, the Comprehensive Financial Management Policy has the following objectives for the City's fiscal performance.

- > To guide City Council and management policy decisions that have significant fiscal impact.
- > To set forth operating principles that minimize the cost of government and financial risk.
- > To employ balanced and fair revenue policies that provide adequate funding for desired programs.
- > To maintain appropriate financial capacity for present and future needs.
- > To promote sound financial management by providing accurate and timely information on the City's financial condition.
- > To secure the highest possible credit and bond ratings by meeting or exceeding investment grade financial thresholds through sound, conservative financial decision making.
- > To ensure the legal use of financial resources through an effective system of internal controls.
- > To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.
- > To link long-term financial planning with short-term daily operations.

## Fund Balance and Reserves

Fund balance measures the net financial resources available to finance expenditures of future periods. Rating agencies examine fund balance when considering overall economic health and credit quality of the City. Reserves protect the

City's essential service programs during periods of economic downturn, which may temporarily reduce actual resources or cut the growth rate of City resources which are necessary to maintain pre-existing service levels.

1. The City shall achieve and maintain a minimum General Fund Reserve Balance of 15% of the General Fund's current annual operating budget.
  - 1.1. The General Fund Reserve Balance of the City's General Fund is assigned and should not be used to support recurring operating expenditures outside of the current budget year.
2. The City's Budget Stabilization Reserve of 5% of the General Fund's current annual operating budget will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies, withstand local and regional economic shocks, and unexpected declines in revenue without borrowing.
  - 2.1. The Budget Stabilization Reserve shall be used only to cover emergencies and unexpected declines in revenue. If the Budget Stabilization Reserve is used in the previous year, the City will decrease its General Fund expenditures to prevent using the Budget Stabilization Reserve in two consecutive fiscal years to subsidize the General Fund.
  - 2.2. The Budget Stabilization Reserve is committed and can only be appropriated by a resolution of the City Council.
  - 2.3. In the event the Budget Stabilization Reserve is used to provide for temporary funding of unforeseen emergency needs, the city shall restore the Budget Stabilization Reserve to the minimum level of 5% of the General Fund's annual operating budget within two fiscal years following fiscal year in which the event occurred.
3. Any unassigned fund balance in the General Fund, in excess of the 20% comprised of the General Fund Balance Reserve and Budget Stabilization Reserve, shall be utilized for City Council's Priority Funding. This unassigned funding shall be earmarked for non-recurring capital expenditures or used to "buy down" the Bond and Interest for future budget years. It is generally agreed to be in the best interest of the citizens of Brookings to use the City Council's Priority Funding to first fund non-reoccurring capital projects and only be used to buy down debt that is above the ceiling. City Council shall prioritize these projects while considering up front and long term commitments.
4. Any funding from the 3B Fund shall meet the requirements of the South Dakota State Statute 10-52-8\*. Monies will be appropriated from the 3B Fund to economic development and promotional endeavors with the capacity to progress and advertise the city, its facilities, attractions, and activities. In any fiscal year, the City may require unspent funds to be

returned to the 3B Fund. Unassigned funds will be utilized for capital projects associated with these agencies or onetime expenditures. The Fund will contain a committed reserve of \$100,000 for unanticipated shortfalls.

## Capital Improvement Plan (CIP)

1. The City's long range strategic financial plan is compiled for a sustainable improvement of the community's infrastructure and operations. The City of Brookings will consider any equipment or projects with a cost over \$25,000 as a capital improvement and funded within the CIP.
2. Capital Improvement Plan will consist of the former 212 (1/4 penny) and 213 (3/4 penny) accounts. The Capital Improvement Plan shall contain funding primarily for General Fund activities.
3. The City will maintain a Capital Improvement Plan which provides a ten-year estimate of the funds necessary to finance the City's capital projects and assets. The Capital Improvement Plan will be updated and included in the annual budget document.
4. The Capital Improvement Plan may show a positive carryover and rely on City Council's Priority Funding to assure adequate project funding. Carryover is excess cash from the current year created from unassigned project savings and shall be utilized the following year as a carry forward. Transfers from the General and other Enterprise Funds can be made to balance the plan when necessary.
5. Bonds are primarily used for improvements to streets and facility additions or major renovations of which cash is unavailable. Rating agencies examine debt to revenue to determine proper rates and allowances. Therefore, the City will limit debt to a ratio of 1:3 for its debt/revenue attained from the dedicated sales tax (former 1/4 and 3/4 penny sales tax) and other sources outlined within the CIP.
6. The City will maintain an assigned Vehicle, Equipment, IT and Building maintenance/replacement sinking fund. A schedule will provide ten-year estimates of the funds necessary to maintain and replace the City's primary assets. This fund will be a line item in the CIP plan and will be updated as part of the budget process and will be presented to the City Council as part of the annual budget document.
7. Approximately 1% of capital improvement costs will be subject to the Public Art funding requirement. The exception of capital improvement items not subject to this calculation include those funded through bonds, leases, grants and other outside funding sources. The Public Art account will be funded per section 2-114 of City Code.

## Budgeting

The budget is one of the most important documents the City prepares since it identifies the services to be provided and how the services are to be financed. Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. During the budget process, the City shall reorganize both short-term needs and objectives in relation to the long-term goals of the City. The annual budget will be prepared and adopted in accordance with state laws.

1. The City Manager will prepare a budget in accordance with the guidelines established by the Government Finance Officers Association (GFOA).
2. The City Manager shall develop annually a Budget Preparation Calendar outlining the preparation and adoption timelines for the proposed budget.
3. Budget packages for the preparation of the budget, including forms and instructions, shall be distributed to City departments to complete. Departments shall prepare and return their budget proposals to the City Manager, as required in the Budget Preparation Calendar.
4. During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services that could be eliminated or reduced in cost.
5. Budgeting procedures will attempt to identify distinct functions and activities and to allocate budget resources to perform these functions and activities as required.
6. Duplication of services and inefficiency in delivery should be eliminated wherever identified. The City will continue to examine alternative service delivery options for all City functions. Alternatives for improving the efficiency and effectiveness of the City's programs and the productivity of its employees will be considered during the budget process.
7. Performance measures will be utilized and reported in department budgets. The City will prepare trends, comparisons to other cities, and other financial management tools to monitor and improve service delivery in City programs.
8. Officials and department heads are required to monitor revenues and control expenditures to prevent exceeding the amount of expenditures budgeted for their department as well as accurately tracking and projecting revenues.