

Appendix C

City of St. Cloud Financial Policy

The City of St. Cloud's Mission Statement and Values stress cost-effectiveness, fiscal responsibility, and planning. The City Charter and Administrative Code provide guidance for the financial affairs of the City including a description of the annual budget process and its administration. However, The Charter and City Code do not provide specific financial goals and guidelines. This policy will provide further guidance for the preparation, approval process, and administration of the annual budget. When the City Council considers an annual budget proposal, an annual Capital Improvement Program, a proposal to utilize debt, or any significant financial initiative, this policy will be referenced. During that consideration, the City Administration will provide an analysis that demonstrates "compliance or non-compliance" with this Council Policy. Therefore, this policy is the framework for discussions about financial stability and a positive financial condition.

I. Budget Process – All Funds with the Exception of Enterprise Funds.

- a. Council will have a preliminary discussion about the budget and the Budget Policy in the 1st Quarter of each year.
- b. The annual budget will clearly identify expenditures, revenues, and resulting fund balances for a two-year period. The Council will adopt an annual budget for the ensuing year.
- c. The City Administrator is responsible for initiating the annual budget process. The City Administrator will commence a budget process with instructions and format to department heads so those departments have sufficient time for submitting budget proposals.
- d. The City Administrator will compile the requests and prepare a complete budget recommendation to the Mayor prior to July 31 annually.
- e. The Mayor shall submit to the City Council a recommended budget at a Council meeting in August.
- f. The Council will schedule appropriate time to review the recommended budget, suggest changes, and allow time for public comment.
- g. The City Council will establish the proposed (maximum) property tax levy by September 15 annually (in accordance with State Law).
- h. The City Council will schedule a Public Hearing for public comment on the proposed budget in December (in accordance with State Law) and conduct the hearing.
- i. The Council will adopt the budget before the end of December annually.
- j. The annual budget, after completion, will be submitted to the Government Finance Officers Association (GFOA) by the Finance Department for evaluation and consideration for the Distinguished Budget Presentation Award.
- k. The Finance Department shall prepare a five year financial trend analysis report to be presented to the City Council prior to the budget work sessions.

II. Budget Policy

- a. Expenditures
 - i. Annual operating budgets will be proposed and adopted on a balanced basis, where operating revenues (estimated revenues) are used to fund operating expenditures (appropriations).
 - ii. The annual budget for the General Fund will include a contingency of at least one-percent (1%) of the total General Fund Appropriations. The General Fund Balance may be used for contingency purposes if the balance exceeds the target level established by policy.
 - iii. Programs will be used to provide greater detail in the budget process.
- b. Revenues
 - i. City will maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.
 - ii. User charges and fees will be set at levels that offset wholly or partially direct and indirect costs of providing the service by a fee where possible. There shall be an annual review of fees and charges to ensure that fees provide adequate coverage of costs of services. For example, full fee support shall be obtained from utility and sanitation services while partial fee support shall be generated by charges for some licenses and fines, sports programs, and other parks and recreation programs. Administration will monitor the fee support by major user charge and fee categories and report to the Council regarding the percentage level of support and whether the support is increasing or decreasing during the budget process.
 - iii. To the extent possible, the City will charge non-resident fees, which at a minimum reflect the total cost of the activity or programs.
 - iv. Annual budget increases, if necessary, shall be consistent with increased growth in the tax base, government aids and credits, and other non-property tax revenue. The property tax rate will remain constant avoiding significant increases or decreases in one budget year.

- v. Enterprise Funds will pay for a proportionate share of administrative costs incurred in General Fund departments. The annual budget will provide documentation to support the charging of staff time to Enterprise Funds.
- vi. City will use a conservative, objective and analytical process in estimating its annual revenues and projecting them two years into the future.
- vii. One-time revenues such as the proceeds from the sale of assets, non-recurring governmental aid, and gifts that are not required by law or agreement to be expended for a particular purpose will only be used for capital purchases, early debt retirement or emergency expenditures. The policy of the City is not to use one time revenues for on going operating costs. Consideration of utilizing one-time revenues for start-up costs or stabilization of programs will be given if proposed by Administration and approved by the City Council.

III. Fund Balances

- a. General Fund and Special Revenue Fund Designated, Undesignated and Unreserved Fund Balance will have a target of fifty seven and one half percent (57 ½%) of the total Fund Appropriations. This will put the City in the moderately high fund balance category (50% to 65%) per the State Auditor's Office Report on Fund Balances.
- b. If reserves and fund balances are not at the targeted level, there will be provisions or planning in the proposed budget to increase/decrease the reserve or fund balance to the targeted level. Fund Balance should not be considered a source of funds for operating expenditures. Excess Fund Balance may be appropriated as part of the annual budget to fund capital or emergency expenditures.
- c. Enterprise Funds should maintain a minimum of 20% of cash reserves of the annual budget in their operating accounts.
- d. City will establish and maintain capital replacement reserve accounts for each Enterprise Fund operation and will appropriate funds to the accounts.
- e. City will establish and maintain debt service reserve accounts for all Enterprise Funds with outstanding debt. The City will strive to have one year's of annual debt service payments in a debt service reserve account.

IV. Budget and Financial Reporting

- a. The budget is a Council policy document, Administration is responsible for the successful implementation of the budget by establishing a budgetary control system to ensure adherence to the budget.
- b. Performance Measurements and Indicators will be incorporated within the budget.
- c. Monthly Budget, Fund Balance, and Investment Reports will be generated and reviewed by the Administration.
- d. The City Council will receive a summary report of the financial position of the City on a quarterly basis.
- e. The proposed budget, submitted to Council, will contain notifications of any deviations from the established policy.
- f. Budget amendments will be done in accordance with provisions detailed in the Home Rule Charter. The shifting of budgeted funds from one object code to another within the departmental budget is permitted. This shifting shall be approved by the Mayor and shall only include non-capital outlay items. All other shifts from one department to another department budget, from one fund budget to another, and shifting of fund for the purchase of capital outlay and all unbudgeted expenditures shall be approved by the City Council.
- g. Periodically, the City Council may review a particular department/program budget in greater detail. This review may include a justification of all expenditures for each program as well as revenues generated by each program.
- h. An Annual Financial Report will be provided to the City Council in the second quarter of each year, recapping the previous budget year with information on policy compliance, budget compliance, fund balances, and investments.

V. Capital Improvement Planning/Budgeting

- a. A Six-Year Capital Improvement Program (CIP) will be developed and presented to the Planning Commission by March of each year.
 - i. CIP will plan for capital expenditures with a project description, an estimated cost, the year of construction/purchase, and the funds identified to pay for the project.
 - ii. CIP will summarize annual expenditures and demonstrate the ability to fund the projects with identified sources of funding.
 - iii. CIP will become a part of the annual operating budget plan and process.
 - iv. The City Council will have a preliminary discussion about capital projects and initiatives to be considered in the upcoming CIP in the 1st Quarter of each year.
- b. Debt Management – The City will issue debt only for capital improvements or projects that cannot be financed from current revenues or resources. General Obligation debt will be managed on an annual basis to match funds

to the Capital Improvement Program cash flow requirements while being sensitive to the property tax burden on citizens.

- i. The City will confine long-term (seven (7) years or more) borrowing to capital improvements.
- ii. When debt is utilized to finance improvements or equipment, it will be repaid within a period not to exceed the useful life of the project, but no more than twenty (20) years.
- iii. Where possible, self-supporting bonds will be used rather than general obligation bonds. Debt will be financed soundly by realistically projecting the revenue sources that will be used to pay the debt.
- iv. Total property tax levy for debt will not exceed 12% with a target of 11.5% of the annual property tax levy and government aids paid by the State of Minnesota.
- v. Debt Service expenditures will not exceed 22.5% with a target of 21% of the total Governmental Fund expenditures. This excludes Enterprise Fund debt or Sales Tax Supported debt.
- vi. Total net tax supported debt will not exceed 0.80% of the estimated full value of the City with a goal of not to exceed 0.75%.
- vii. Sum total of all estimated taxable market value captured for properties under tax programs (i.e. tax increment financing, tax abatement, JOBZ) purposes shall not exceed 6% of the total estimated full market value of the City.
- viii. The year to year increase of actual revenue from property taxes and property tax relief paid from state taxes will generally not exceed the growth in the tax base as a result of new construction and inflation. To ensure this, the total annual property tax levy plus local government aid shall not exceed 1.00% estimated full value of the City with a target of 0.95%. In achieving the target, previous year fluctuations under and over the target will be taken into consideration.
- ix. The City of St. Cloud will evaluate the benefits of having a portion of outstanding debt issued in variable rate bonds. Used prudently, the City's goal is to reduce the interest costs on bonds using variable rate debt. The City's variable rate debt outstanding will not exceed 20% of the total outstanding debt obligations.
- x. The City policy is to retire tax increment debt and projects whenever sufficient funds are collected. The goal of the City is to get the tax base of the tax increment district back on the general tax rolls at the earliest time possible for annual distribution to all taxing districts.
- xi. Short-term debt (less than seven (7) years) will only be used for lease purchases, purchases of equipment, or interim financing to be used in periods of high interest rates. Interim financing will be refinanced as permanent financing as soon as market conditions make this possible.
- xii. The City will maintain good communications and obtain ratings from Moody's and Standard & Poors on the outstanding bonds issued by the City. The City has an AA3 rating from Moody's and an AA- from Standard & Poors as of December 31, 2004. The goal of the City is to maintain the AA credit rating and strive for an upgrade to an AA2 rating from Moody's and an AA rating from Standard & Poors.