



CITY OF BRISTOL, VIRGINIA

FINANCIAL POLICIES



City of Bristol, Virginia FINANCIAL POLICIES

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1.0 Policy Purpose

The City of Bristol, Virginia (the City) and its governing body, the City Council (the Council), is accountable to the City's citizens to carefully account for all public funds. Municipal resources must be used wisely to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. The following financial policies and guidelines establish the framework for the City's overall fiscal planning and management.

1.01 Policy Objectives

This fiscal policy is a statement of the guidelines and objectives that will influence and guide the financial management practices of the City. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management and safeguards the fiscal stability of the City. In order to achieve its purpose, the fiscal policy has the following objectives for the City's fiscal performance.

- A. To contribute significantly to the City's ability to insulate itself from fiscal crisis.
- B. To guide City Council and management policy decisions that have significant fiscal impact.
- C. To promote long term financial stability by establishing clear and consistent guidelines.
- D. To direct attention to the total financial picture of the City rather than single issue areas and link long term financial planning with day to day operations.
- E. To ensure sound financial management by providing accurate and timely information on the City's financial condition.
- F. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's current and future debt obligations on all municipal debt, including general obligation debt and moral obligation debt.
- G. To limit maximum overall legal and moral obligation debt limits to conservative and reasonable levels.
- H. To strive for and to obtain a credit rating of AAA.

1.02 Policy Implementation and Coordination

The City has established a Finance Committee that meets approximately monthly to collectively review financial matters of the City, including the monitoring of financial activity and cash management. The Finance Committee will review and promote compliance with the financial policies outlined herein. Members of the Finance Committee will include two members of the City Council.

1.03 Review and Revision

These policies will be presented to Council annually prior to January 31 for review and revision.



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2.0 Revenues

The City will strive to maintain a diversified mix of revenues in order to balance the sources of revenue amongst taxpayers and to provide ongoing stability and predictability and to shelter it from short-term fluctuations in any one revenue source.

Current revenues will fund current expenditures. The City must balance the need for services and the City's ability to raise fees, charges, and taxes to support those services.

2.01 Revenue Collections

The City will monitor all taxes to insure they are equitably administered and collections are timely and accurate. The City will aggressively collect property taxes and related penalties and interest as authorized by the Code of Virginia.

2.02 Fees and Charges

As much as is reasonably possible, City services that provide private benefit should be supported by fees and charges in order to provide maximum flexibility in use of general City taxes to meet the cost of services of broader public benefit. Charges for services that benefit specific users should recover full costs, including all direct costs, capital costs, department overhead, and City-wide overhead. Departments that impose fees or service charges should prepare and periodically update cost-of-service studies for such services. A subsidy of a portion of the costs for such services may be considered when consistent with legal requirements to meet other City interests and objectives, such as remaining competitive within the region.

2.03 Reassessment

Reassessment will be made of all real property at least every four years. The City will maintain sound appraisal procedures to keep property values current. Real property will be assessed at 100% of full market value.

2.04 Intergovernmental Aid

The City will pursue intergovernmental aid, including grants, for those programs and activities that address a recognized need and are consistent with the City's long-range objectives, and will attempt to recover all allowable costs associated with those programs. Any decision to pursue intergovernmental aid should include the consideration of the following:

- A. Present and future funding requirements;
- B. Cost of administering the funds;
- C. Costs associated with special conditions or regulations attached to the grant award
- D. When grants or other intergovernmental aid are reduced or eliminated, the program or project it supported will be reduced by a commensurate amount.

2.05 Revenue Forecasts

The estimate of the City's revenues shall be set at realistic and attainable levels, sufficiently conservative to avoid shortfalls, yet accurate enough to avoid a systematic pattern of setting tax rates that produce significantly more revenue than is necessary to meet expenditure, fund balance and reserve requirements.



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2.06 Restricted Revenue

Restricted revenue shall only be used for the purpose intended and in a fiscally responsible manner.

2.07 Use of One-Time Revenues

The City will limit the use of one-time revenues to one-time expenditures such as non-recurring capital projects.

2.08 Use of Fund Balance

The City's General Fund equity balance will be utilized to provide sufficient working capital in anticipation of current budgeted revenues and to finance unforeseen emergencies without borrowing. The General Fund equity of the City (Unassigned Fund Balance) should not be used to finance current operations without specific approval by Council as a regular agenda item. This does not apply to carryover funds related to specific grants, refunds of certain funds, or pass through items that will be presented on the consent agenda.

3.0 Expenditures

The City should accommodate ongoing expenditures within current resources. One-time expenditures should be funded with an offsetting revenue or from an established and adequately funded reserve. Expenditures will be evaluated based on the fiscal impact on current and future operations. On-going expenses will be monitored in comparison with budget appropriations, effectiveness of the services, and operational efficiency.

3.01 Continual Improvements

The City will seek to optimize the efficiency and effectiveness of its services through improvement efforts, performance measures, and by assessing its services with comparable cities to reduce costs and improve service quality.

3.02 Monitoring

Department Heads are responsible for managing program expenses within the total adopted operating budget.

4.0 Budget

The City will annually adopt and execute a budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. The budget shall control the levy of taxes and the expenditure of money for all City purposes during the ensuing fiscal year. The City budget shall be balanced within all available operating revenues, including the fund balance, and adopted by the City Council.



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4.01 Balanced Budget

The annual budget of the City will be considered balanced when all payments for operations, debt service, and annual capital plan needs do not exceed budgeted revenues.

4.02 Current Revenues to Support Current Expenditures

Ongoing and stable revenues will be used to support ongoing operating costs.

4.03 One-time Revenues and One-time Expenditures

The use of one-time revenues and one-time expenditure savings (excess cash balances) will be used for non-recurring expenditures.

4.04 Revenue and Expenditure Projections

The City will prepare annually a financial forecast utilizing trend indicators and projections of annual operating revenues, expenditures, capital improvements and related debt service and operating costs, and fund balance levels.

4.05 Budget Performance Monitoring

All departments of the City will periodically examine and affect changes in program delivery responsibilities or management which would improve productivity, lower costs, enhance service, and further communication with the public. The City will maintain a budgetary control system to ensure adherence to the budget and will prepare monthly reports comparing actual revenues and expenditures (expenses) to budgeted amounts.

4.06 Budget Adjustments

The City Manager may authorize adjustments to the adopted budget as requested by staff between individual line items. Council approval is needed to increase the total budget expenses.

5.0 Capital Improvement Program

In order to prepare and plan for upcoming capital needs and improve capital infrastructure, the City will prepare a minimum five-year Capital Improvement Plan.

The Capital Improvement Plan will include major capital improvements and identify estimated revenue sources and annual operational costs for facilities to include anticipated debt service requirements.

Capital improvements do not include routine maintenance on existing capital assets.

5.01 Capital Improvement Program Components

The City's capital improvement program consists of two (2) components:

- A. Capital plan - a listing of capital items that the locality anticipates undertaking within the next five (5) years. A capital item is any tangible asset or project with a total cost of \$5,000 or more and a useful life of greater than one year.



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- B. Capital budget - an element of the locality's annual budget adoption process and details the upcoming year's planned expenditures for capital projects. This capital budget is based on the capital improvement plan.

6.0 Debt

The City Council generally follows the guidelines listed below in making financial decisions on debt issuance. Adherence to these guidelines allows the City to plan for the necessary financing of capital projects while maintaining credit worthiness. In addition, continued adherence to these policies will ensure the City's strong financial position.

The City shall use an objective analytical approach to determine whether it can afford new or additional general purpose debt. This process shall use the City's standards of affordability. These standards include the measures of debt service payments as a percent of current expenditures and debt as a percent of taxable real estate value.

6.01 Tax Anticipation Notes (TANs)

The City does not intend to issue tax anticipation notes (TANs) to fund government operations but if the timing of receipt of revenues in the course of the fiscal year requires the borrowing of money to support expenditures within the adopted budget the City may issue promissory notes as outlined in the budget ordinance.

6.02 Letters of Credit

The City may enter into a letter-of-credit (LOC) agreement when such an agreement is deemed prudent and advantageous. The City will prepare and distribute a request for proposals to qualified banks which includes terms and conditions that are acceptable to the City.

6.03 Lease Purchase Obligations

Lease purchase and master lease obligations shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation.

6.04 Compliance with Legal Requirements

Pursuant to the Constitution of Virginia (the Constitution), the City is authorized to issue bonds secured by a pledge of its full faith and credit and unlimited taxing power. The issuance of general obligation bonds is subject to a constitutional limitation of ten percent (10%) of the assessed value of taxable real property.

History has shown borrowing levels at or near 10% is a serious fiscal stress to the City's ability to meet short and long term debt service obligations and also operate the City under normal conditions. A level of one-half of the state's constitutional limit is the maximum recommended amount.

6.05 Debt Ratio Policies

General Obligation Debt as a Percentage of Assessed Value Ceiling 5%

This ratio indicates the relationship between the City's debt and the total taxable value of real property in the City. It is an important indicator of the City's ability to repay debt, because property taxes are the



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primary source of the City's revenues used to repay debt. A small ratio is an indication that the City will be better able to withstand possible future economic downturns and continue to meet its debt obligations. Debt levels in excess of this ratio require a written action plan to be presented to Council by the City Manager annually that will address the excess debt and any new general obligation or moral obligation debt.

Debt as a Percentage of Operating Expenditures per fund Ceiling 8%

This ratio is a measure of the City's ability to repay debt without hampering other City services. A smaller ratio indicates a lesser burden on the City's operating budget. The numerator shall include debt that is not self-supporting from a user fee revenue stream. A self-supporting revenue stream is defined as a revenue stream that provides coverage of all debt service obligations without general fund support (to include tax assessment districts and funds supported by committed state revenues in support of such debt). Any long term financing lease obligations which may be subject to annual appropriation by the City will also be included in the calculations of tax-supported debt service. Operating expenditures will consist of ongoing general and proprietary fund expenditures, excluding inter-fund transfers.

Compliance with the above debt policy ratios will be calculated each fiscal year in conjunction with the budget development process and provided to Council with the proposed annual budget.

6.06 Long Term Debt Policy

The City may use debt financing for capital projects and unusual equipment purchases under the following circumstances:

- A. When the project is included in the City's capital improvement program and/or is generally in conformance with the City's Comprehensive Plan.
- B. When the project is not included in the City's Capital Improvement Program, but it is an emerging critical need whose timing was not anticipated in the Capital Improvement Program, or it is a project mandated immediately by state or federal requirements.
- C. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
- D. When there are designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

The following criteria will be used to evaluate funding options for capital improvements:

- A. Factors that favor pay-as-you-go:
 - a. Current revenues and adequate fund balances are available.
 - b. Project phasing is feasible.
 - c. Debt levels would adversely affect the City's credit rating.
 - d. Financial market conditions are unstable or present difficulties in marketing the sale of long-term financing investments.



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- B. Factors that favor long-term financing:
 - a. Revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with the highest possible credit rating.
 - b. The project for which financing is being considered is of the type that will allow the City to maintain the highest possible credit rating.
 - c. Market conditions present favorable interest rates and demand for municipal financings.
 - d. A project is mandated by state or federal requirements and current revenues and fund balances are insufficient to pay project costs.
 - e. A project is immediately required to meet or relieve capacity needs.

There are many different types of long-term debt instruments available. Depending on the specific circumstances, the City will consider using the following types of financing instruments:

- A. General Obligation Bonds
- B. General Obligation Bonds sold to Virginia Public School Authority for School Capital Projects
- C. Revenue Bonds
- D. Certificates of Participation
- E. Lease Revenue Bonds
- F. Selected State Pooled-Borrowing Programs for Utility Revenue Bonds, including those of the Virginia Resources Authority.

Under no circumstance is it recommended to issue long term debt obligations for private enterprise projects where business plans and market risk play a significant role in the economic outcome of the project.

6.07 Bond Structure

The City shall establish all terms and conditions relating to the issuance of bonds, and will invest all bond proceeds pursuant to the terms of the bond. Unless otherwise authorized by the City, the following shall serve as bond requirements:

- A. Term
All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event will the term exceed thirty (30) years.
- B. Capitalized Interest
From time to time certain financings may require the use of capitalized interest from the issuance date until the City has beneficial use and/or occupancy of the financed project. Interest shall not be funded (capitalized) beyond three years or a shorter period if further restricted by law. Interest earnings may, at the City's discretion, be applied to extend the term of capitalized interest but in no event beyond the term allowed by law.
- C. Debt Service Structure



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Debt issuance shall be planned to achieve relatively equal payment of principal (declining debt service) while matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to make existing overall debt service level. The City may elect a less rapid or other debt service structure, such as level debt service at its discretion.

D. Call Provision

In general, the City's debt will include an early redemption (or "call") feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful, documented evaluation by the City in conjunction with its financial advisor with respect to the value of the call option.

6.08 Consultants

A. Financial Advisor

The City shall select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:

- a. Experience in providing consulting services to entities similar to the City, knowledge and experience in structuring and analyzing bond issues experience, and reputation of assigned personnel
- b. Fees and expenses
- c. Conflicts of Interest. The City requires that its consultants and advisors provide objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts of interest.

B. Bond Counsel

City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The Bond Counsel will be selected by the City.

C. Disclosure by Financing Team Member

All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

6.09 City Financial Disclosure

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments, and the general public to share clear, comprehensive, and accurate financial information. The City is committed to meeting secondary market disclosure requirements on a timely and comprehensive basis.



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7.0 Financial Reporting

7.01 Accounting Standards

The City's financial statements will conform to generally accepted accounting principles (GAAP) as established by the Government Accounting Standards Board (GASB).

7.02 Accounting Records

The City will maintain an accounting system to allow for the accurate and timely preparation of financial statements. The accounting system will have sufficient internal controls designed to prevent fraud and abuse.

7.03 Audit Requirements

An independent certified public accountant will perform an annual audit of the City's financial statements. Audit results will be presented to the City Council for acceptance.

7.04 Finance Committee

A Finance Committee consisting of two members of Council, the City Manager, the Chief Financial Officer, the Treasurer, the Commissioner of Revenue, and other members as determined by the City Manager and Chief Financial Officer will meet approximately monthly. The Finance Committee will regularly review the financial activity of the City, to include cash management and policy compliance. The Finance Committee may report to Council via written communication any areas of significant concern.

7.05 Finance Updates to Council

Monthly financial statements will be distributed to Council.

Quarterly financial updates will be provided to City Council.

Compliance to this policy will be communicated to Council as part of the budget information presented to Council and available to the public on the website. Minimum information communicated will consist of Debt Ratio information contained in this policy for the previous two years based on audited information, for the current year, and for the upcoming budget year.