

City of Klamath Falls

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Approved by: City Council

References: 17-12

CP-05-003 – FINANCIAL POLICIES

INTRODUCTION

The financial integrity of our City government is of utmost importance. City government is accountable to its citizens for the use of public dollars. Resources should be used wisely to ensure adequate funding for the services, public facilities and infrastructure necessary to meet the community's present and future needs.

Written, adopted financial policies have many benefits, such as assisting the Council and City Manager in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as Council and staff members change. While these policies will be amended periodically, they will provide the foundation and framework for many of the issues and decisions facing the City. They will promote sound financial management and assist in the City's stability, efficiency and effectiveness to accomplish the City Council's goals and objectives.

In addition, the City as an institution has multiple partners, including citizens, taxpayers, businesses, employees and other governments. As a major institutional, economic and service force in the region, it is important that the City strengthen its relationships with its partners by adopting clear and comprehensive financial policies.

The goals of the following fiscal policies are as follows:

1. To enhance City Council's policy-making ability by providing accurate information on program and operating costs.
2. To assist in sound management of City government by providing accurate and timely information on current and anticipated financial conditions.
3. To provide sound principles to guide important decisions of the Council, Budget Committee, Audit Committee and management which have significant fiscal impact.
4. To employ revenue policies, which prevent undue or unbalanced reliance on any one source, distribute the cost of municipal services fairly and provide adequate funds to operate desired programs.
5. To make sure an equitable fee structure is developed to assure continued services.
6. To provide and maintain essential public facilities, utilities, and capital equipment.
7. To protect and enhance the City's credit rating.

8. To ensure that all surplus cash is prudently invested in accordance with the investment policy adopted by the Council to protect City funds and realize a reasonable rate of return.

ACCOUNTING AND FINANCIAL PRACTICES POLICIES

The City will maintain an accounting and financial reporting system that allows reporting in conformance with Generally Accepted Accounting Principles as applied to municipalities and Oregon Local Budget Law.

The City will manage its funds as independent financial entities in accordance with legal and administrative policies and will ensure that funds are not co-mingled.

Each fund, as appropriate, will maintain a contingency account to meet unanticipated requirements during the budget year.

To provide for cash flow requirements, each fund will maintain an adequate cash balance, borrow internally from another City fund, or, as a last resort, borrow externally.

FUND BALANCE POLICIES

The Governmental Accounting Standards Board (GASB) has defined fund balance for financial reporting to be classified as follows:

1. Non-spendable: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government, through constitutional provisions, or by enabling legislation.
2. Restricted: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government, through constitutional provisions, or by enabling legislation.
3. Committed: Amounts constrained by the City Council through the highest formal action, an Ordinance.
4. Assigned: Amounts the City intends to use for specific purpose. The authority to assign resources lies with the City Manager or his/her designee.
5. Unassigned: Amounts that are not categorized into one of the aforementioned classifications; these resources may be used for anything. Only the General Fund should show a positive unassigned fund balance. For other funds, a negative unassigned balance should be reported if more resources are used than are available in the fund.

The City of Klamath Falls will use the GASB's definitions of Fund Balance for the Comprehensive Annual Financial Report (CAFR) and for all other financial reporting. For all financial planning purposes, the term Budgetary Fund Balance will be used and will include any portion of the fund balance that is available for appropriation. Portions of the fund balance that are not available for appropriation will be identified as a Reserved Balance.

NET POSITION AND FUND BALANCE FLOW ASSUMPTIONS

The City may fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The City will deplete restricted net position before unrestricted net position is applied.

The City may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. The City will deplete restricted fund balance before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

BUDGET POLICIES

The City will live within its means. A balance must be struck between revenues and expenditures, so that the public can realize the benefits of a strong and stable government. It is important to understand that this policy is applied to budget entities over periods of time which extend beyond current appropriations. By law, budget expenditures cannot exceed available resources, defined as revenues generated in the current period added to balances carried forward from prior years. Temporary shortages, or operating deficits, can and do occur, but they are not tolerated as extended trends.

Balanced Operating Budget

The City shall biennially adopt a balanced budget pursuant to ORS 294.305 to 294.565 where operating revenues are equal to, or exceed, operating expenditures. Any increase in expenses, decrease in revenues, or combination of the two that would result in a budget imbalance will require budget revision, rather than spending unappropriated surpluses or designated contingencies to support ongoing operations. Any year end operating surpluses will revert to fund balances for use in maintaining contingency reserve levels set by policy and the balance will be available for capital projects and/or "one-time only" expenditures.

Budget Document

The operating budget shall serve as the biennial financial plan for the City. It will serve as the policy document of the City Council for implementing Council goals and objectives. The budget shall provide the staff the resources necessary to accomplish City Council determined service levels.

The Budget Officer shall biennially prepare and present a proposed operating budget to the Budget Committee no later than May 30 of the budget year; and the City Council will adopt said budget no later than June 30 of that year. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the City Council.

The City's biennial budget will be presented by fund, with a logical breakdown of programs and expenditures. A separate line item budget printout will be available upon request to the Budget Committee and City Council. The budget will focus on policy issues and will summarize expenditures at the Personal Services, Materials and Services, Capital Outlay, Debt Service, and Interfund Transfer levels.

The City uses a 10-year model to analyze projected expenditures and revenues. The City utilizes a rolling average of 3 or 5 years for revenue. Known expenditures are included and projected expenditures are used to forecast expenses and revenues for the 10-year horizon. This plan allows the Budget Committee and Council to analyze impacts to the budget prior to committing to new on-going expenditures for employees or programs. Staff updates the plan regularly.

Budget Control and Accountability

Budget control is maintained at the department level. The City Manager has the authority to approve expenditures of up to the amount established in the Public Contracting Rules, as amended, and the Council Policy on Spending Authority. Expenditures exceeding the established amount must be approved by the City Council. In no case, may total expenditures of a particular fund exceed that which is appropriated by the City Council without a budget amendment.

Purchases must be approved by the manager of the purchaser or someone of equal management level, except the City Manager whose approver will be the Finance Manager. Purchases include invoices, receipts, credit/purchase card statements, check requests, and travel expense reimbursements.

Budget accountability rests primarily with the operating departments of the City.

Capital and Equipment

A six-year Capital Improvements Program shall be prepared and updated each year. The operating impact of each project shall be identified and incorporated into biennial operating budgets. Capital assets costing \$5,000 or more shall be purchased and maintained on a regular schedule. Within legal limits and the constraints of operating budgets, debt shall be issued for the construction and purchase of capital assets, including major renovations.

The biennial budget will provide for adequate maintenance and replacement of capital assets.

Enterprise Funds

The Enterprise Funds shall be supported by their own rates and not subsidized by the General Fund. The Enterprise Funds will pay their share of City administration, maintenance and engineering expenses that benefit those funds. Capital assets and improvements costing \$5,000 or more in the Enterprise Funds will be funded from utility rates unless otherwise approved by the City Council. Depreciation of property, plant and equipment having an estimated initial useful life greater than one reporting period in the Enterprise Funds will be provided using the straight-line method from 1 to 50 years depending on the asset class.

Contingency Reserves Policy

Contingency Reserve will be budgeted to provide for unanticipated expenditures of a nonrecurring nature, unexpected operational changes, legislative impacts, and unexpected increases in costs, and to avoid the need for service level reductions in the event an economic downturn causes revenues to come in lower than budget.

General Fund Budgeted Reserves

City will appropriate a contingency reserve balance in the General Fund of at least 20% of the biennial General Fund operating budget.

If Council authorizes expenditure of contingency reserves for any purpose identified in the previous section, which causes reserve balances to fall below 20%, reserves must begin to be restored in the fiscal year following their use.

Enterprise Fund Budgeted Reserves

The City will appropriate a contingency reserve balance in the Water and Wastewater funds of at least 15% of the biennial operating budget

Special Revenue Funds Budgeted Reserves

The City will appropriate a contingency reserve balance in other funds receiving property tax support at a minimum level of 10% of the biennial operating budget.

Special revenue funds will be evaluated individually based on the type of service, potential for unexpected expenditures and purpose of the fund to determine the appropriate contingency reserve. There may be some funds that require no contingency reserve.

Other Reserve Funds

The City has developed a plan to provide for the periodic purchase/replacement of equipment, furnishings, and vehicles. The plan allows for departments to propose an amount to be set aside in a reserve account sufficient to accumulate funds to purchase new equipment, furnishings, and vehicles. As a way to calculate the amount of set-aside, a department may budget the depreciation for that year. This would allow a department to accumulate over the life of the asset a significant portion of the cost to fund the replacement of existing equipment, vehicles, computers and office furnishings when they reach the end of their useful lives

REVENUE POLICY

In the City of Klamath Falls' fiscal system, the monitoring and control of revenues is a primary concern. To accomplish this, revenues are monitored on a continuous basis to ensure that receipts from each revenue source are at maximum levels. An understanding of the economic and legal factors, which directly and indirectly affect the level of revenue collections, is an important part of the City's revenue policy.

Revenue Policy Goals

1. A diversified yet stable revenue system will be utilized by the City to protect it from possible short-term fluctuations in any of its revenue sources.
2. The City will, after having considered all possible cost reduction alternatives, explore the possibility of obtaining new or expanded revenue sources as a way to help insure a balanced budget.
3. Cost recovery revenue is based on the last audited numbers. While this will cause reimbursement for costs to be in arrears, it will allow for those costs to be accurately assessed.
4. The City will actively support legislation which guarantees funding necessary to cover the cost of state and federal mandated programs.
5. The City will continue lobbying efforts to protect current revenues received from State and Federal sources.
6. The City will follow an aggressive policy of enforcement of revenue regulations and collection of revenues.

Specific Revenue Policies

All revenue forecasts shall be conservative. For modeling purposes, the city uses either 3 or 5 year rolling averages.

To the extent possible, current operations will be funded by current revenues. The use of unencumbered prior period balances for operations shall be scrutinized and carefully limited in all funds.

The various sources of revenue shall be monitored to determine that rates are adequate and equitable, and each source is maximized.

The City will pursue federal, state, and private grants but will carefully review financial support of these programs in areas that require commitments, which continue beyond funding availability. It is the policy of the City to charge fees for services where such an approach is permissible, and where a limited and specific group of beneficiaries is identifiable.

The City will continuously seek new revenues and pursue diverse support, so as to limit the dependence on one or only a few sources.

A diversified and stable revenue system will be maintained to shelter the government from short-run fluctuations in any particular revenue source.

One-time revenues will be used only for one-time expenditures. The City will avoid using temporary revenues to fund mainstream services.

The City Manager, Department Directors and other managers are to analyze the budgets under their control at least monthly and notify the Finance Division of any required changes or discrepancies.

New and expanded unrestricted revenue streams should be first applied to support existing programs prior to funding new or expanded programs.

All City funds shall be safely invested to provide a sufficient level of liquidity to meet cash flow needs and to provide the maximum yield possible within the guidelines of ORS 294.035. One hundred percent of all idle cash will be continuously invested. Quarterly investment reports will be presented to City Council.

FEE POLICY

As a home rule municipality, the City of Klamath Falls has the ability to determine the extent to which fees should be used to fund City facilities, infrastructure and services. This Policy sets forth principles for identifying: the types of services for which fees could appropriately be imposed by the City; methods for calculating the percentage of costs to be recovered by such fees; and the manner in which the fees should be allocated among individual fee payers.

Ongoing Review

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery. Fees will be increased on a yearly basis by the Consumer Price Index for Urban areas (CPI-U). However, fees may be rounded to avoid partial dollar amounts. A full review of all fees will be conducted at least every five years to ensure fees are equitable and consistent with the cost of providing the service.

User Fee Cost Recovery Levels

In setting user fees and cost recovery levels, the following factors will be considered:

1. Community-wide versus special benefit.

The level of user fee cost recovery should consider the community-wide versus special service nature of the program or activity. The use of general purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.

2. Service recipient versus service driver.

After considering community-wide versus special benefit of the service, the concept of service recipient versus service driver should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the driver of development review costs, and as such, cost recovery from the applicant is appropriate.

3. Effect of pricing on the demand for services.

The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly-stimulated by artificially low prices. Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.

4. Feasibility of collection and recovery.

Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.

General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges:

1. Revenues should not exceed the reasonable cost of providing the service.
2. The City will maximize utilization of user charges in lieu of property taxes for services that can be individually identified and where the costs are directly related to the level of service. User fees will be reviewed every three years to ensure that related costs are recovered in accordance with City Council policy.
3. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance, and insurance.
4. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
5. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
6. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

Factors Favoring Low Cost Recovery Levels

Very low cost recovery levels are appropriate under the following circumstances:

1. There is no intended relationship between the amount paid and the benefit received. Almost all public safety programs fall into this category as it is expected that one group will subsidize another.

2. Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
3. There is no intent to limit the use of (or entitlement to) the service. Again, most public safety emergency response services fall into this category. Access to neighborhood and community parks would also fit into this category.
4. The service is non-recurring, generally delivered on a "peak demand" or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services fall into this category.
5. Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might fall into this category.

Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

The service is similar to services provided through the private sector.

1. Other private or public sector alternatives could or do exist for the delivery of the service.
2. For equity or demand management purposes, it is intended that there is a direct relationship between the amount paid and the level and cost of the service received.
3. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
4. The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Permits, plan checks, and subdivision review fees for large projects would fall into this category.

Enterprise Fund Rates

The City will set fees and rates at levels which fully cover the total direct and indirect costs (including operations, capital outlay, and debt service) of the Water and Wastewater Funds.

The City will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate, equitable and sufficient to cover the required debt service bond covenants.

Upon review of utility rates, Council will set rates through the required public process and adopt any changes to the rate structure for the City's enterprise funds by ordinance.

Franchise Fees for Enterprise Funds

In accordance with long-standing practices, the City will review treating the water, wastewater and geothermal funds in the same manner as if they were privately owned and operated. The rates of such franchise fees are set by ordinance and are dedicated to street improvements.

Recreation Programs

The following cost recovery policies apply to the City's recreation programs:

1. Cost recovery for activities directed to adults should be relatively high.
2. Cost recovery for activities directed to youth and seniors should be relatively low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher. Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high-levels of participation in youth and senior recreation activities regardless of financial status.

Rebate Programs

If the amount of a particular fee is considered to be too high to accommodate the needs of particular segments of the community and the public interest would be served by adjusting the amount or manner of payment of such fees in particular instances, the amount of the fee may be waived, rebated, or deferred as appropriate. In the case of fees established by ordinance, the criteria for waiving, rebating, or deferring payment of such fees shall be established by the City Council by ordinance.

Cash Management Investment Policies

The City shall review and update, or modify as appropriate, the City's investment policy when the applicable statutes change. The City's policy follows the guidelines set by state statute and if changes are required, they will be reviewed and adopted by Council.

Reports on the City's investment portfolio and budget are presented to Council quarterly. City funds will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order for short term investments and safety, yield, and liquidity for longer term investments.

Capital Improvement Policy

The City will plan for capital improvements over a multi-year period of time. The Capital Improvements Program will directly relate to the long-range plans and policies of the City. Operating funds to maintain capital improvements and to fund additional staff and service needs will be estimated and identified prior to making the decision to undertake specific capital improvements. The Capital improvement Program is a foundational document for developing the annual or biennial budget.

Capital Outlay Policy

“Capital Outlay” is defined as any of the following:

Acquisition of buildings, improvements, machinery and equipment with a cost of \$5,000 or more, and an initial useful life greater than one reporting periods.

Vehicles or licensed rolling stock, regardless of cost or life expectancy.

Land, regardless of cost or life expectancy.

Infrastructure, including mass assets such as street lights, with a cost of \$5,000 or more, regardless of life expectancy.

Debt Management Policies

The City will seek to maintain, and if possible, improve its current bond rating so its borrowing costs are minimized and its access to credit is preserved.

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Label	Question	Answer
Title	What is the policy title?	Financial Policies for Budget Control and Purchase Authority
Department	What department or division does this affect?	Finance
Number	What is the policy number?	510
EffectiveDate	What is the effective date of policy?	08/07/2017
References	What other references to the CDO, Code or law are made in the policy? If this is a Council policy, be sure to put the resolution number here.	17-12
Approval	Who approved the policy?	City Council
Amends	If this amends a policy or resolution, what does it amend?	[??]
Name	What is name of City Manager who approved? (Leave blank if it was approved by City Council.)	[??]
Purpose	What is the purpose of the policy? (Give the limits or intent of the policy).	[??]