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# **FINANCIAL MANAGEMENT POLICIES**

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Written and adopted financial policies have many benefits, such as assisting the Mayor, Board of Aldermen, and Administration in the financial management of the City, instilling public confidence and providing continuity over time as Council and staff changes occur.

Current and long-range financial stability is essential to enable the City to maintain a position of integrity and to meet the goals identified in this budget. The Finance Department, in conjunction with the City Manager's Office, will work to maintain these fiscal policies by careful and frequent monitoring of expenditures and revenue sources. New revenue sources will be examined, and existing revenue sources will be periodically reviewed to determine the need for adjustment to cover the costs of providing services.

The Mayor and Board of Aldermen adopt appropriations at the fund level. Department directors are responsible for managing budgets within the total appropriated budget under their control.

In order to continue to provide a high level of municipal services to residents and businesses and to maintain the desired level of financial stability, the following financial policies shall guide fiscal decision making, including the development of the City's budget. The following policy statements reflect the principles and priorities the City uses in preparing the budget:

## ***Fund Balance Policy***

Fund Balance is defined as the excess of assets over liabilities in a governmental fund. The City desires to maintain the proper level of financial resources to guard its citizens against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures.

- The City has established the following categories of fund balance.
  - Nonspendable fund balance – Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
  - Restricted fund balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
  - Committed fund balance – Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
  - Assigned fund balance – Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
  - Unassigned fund balance – Amounts that are available for any purpose; these amounts are reported only in the General Fund.

- At a minimum, the City will maintain an unassigned fund balance in the General Fund equivalent to three months or 25% of projected annual expenditures. The City has a fund balance goal equaling 183 working days or 50% of the current fiscal year's projected operating expenditures in the General Fund. When the fund balance equals 40% of the City's operating expenditures, the Board of Aldermen will take action to prevent the fund balance from going below 25%.
- Fund balance levels have been established for the following:
  - Provides adequate funding to cover approximately three months of operating expenditures.
  - Provides stability and flexibility to respond to unexpected adversity and/or opportunities.
  - Permits orderly budgetary adjustments in the event of unanticipated revenue shortfalls.
  - Provides the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic revenue collection, including grant funds which are generally on a reimbursement basis.
  - Provides the liquidity to respond to contingent liabilities.
  - Meet unexpected increases in service delivery costs.
  - Fund planned capital projects, thereby avoiding debt.
  - Assist in paying-down debt on outstanding obligations.
- The City will spend the most restricted dollars before less restricted in the following order: nonspendable (if funds become spendable), restricted, committed, assigned and then unassigned.

***Long-Term Debt and Debt Management Policy***

- The City will limit long-term debt to only those capital improvements or projects that cannot be financed from current revenues. The maturity date for any debt will not exceed the reasonably expected useful life of the project to be financed. Except where determined by specific redevelopment projects, debt will be structured to provide for the retirement of a minimum of 60% of the amount of the outstanding principle within a ten-year period.
- The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the operating budget. The City continues to pursue a moderate capital improvement program through a careful balance of increased debt and pay-as-you-go capital projects. Each capital project that may be funded by debt is evaluated within the context of the City's long-range debt management policy and the capital improvement program.
- The City will not issue long-term debt to finance current operations. The City will always consider alternative funding sources before issuing long-term debt.
- Pursuant to Article VI, Sections 26(b) and 26(c) of the Missouri Constitution, the City, by vote of 2/3 of the qualified electors thereof, may incur general obligation bonded indebtedness for City purposes in an amount not to exceed 10% of the

assessed valuation of taxable property within the City as asserted by the last completed assessment for state of county purposes.

- Under Section 26(d) and 26(e) of said Article VI the City may incur general obligation indebtedness not exceeding in the aggregate an additional 10% of the aforesaid assessed valuation, provided that the total general obligation indebtedness of the City shall not exceed 20% of the assessed valuation, for the purposes of acquiring rights-of-way; constructing, extending and improving streets, avenues and sanitary or storm sewer systems; and paying all or any part of the cost of purchasing or constructing waterworks, electric, or other light plants to be owned exclusively by the City.
- Capital will be raised at the lowest possible cost through maintenance of a high credit rating and a fiscally conservative approach in the credit markets. The City's credit rating for general obligation debt is the highest possible with a rating of 'AAA' by Standard & Poor's Investor Services. The City continually works to maintain its bond rating through sound financial planning and decisions.

### ***General Operating Budget Policies***

- Ongoing operations of the City shall be funded from ongoing revenues.
- Actual revenues and expenditures shall be monitored monthly against budget estimates and appropriations.
- A three-year projection of revenues and expenditures for all funds shall be prepared and updated annually.

### ***Revenue Policies***

- The City will estimate its annual revenue by an objective, analytical process. All major revenue sources will be reviewed by the Finance Department on at least a quarterly basis and revision will be reported to the Board of Aldermen. Revenues will be conservatively estimated and each year the Finance Department will project revenues for the next three years based on historic trend analysis to establish baseline estimates. Each existing and potential revenue source will be reexamined annually.
- The City will establish all user charges and fees at a level related to the cost of providing the services, as well as the benefit of the service, to the user and the public as defined by the User Fee Policy. Increases in user charges and fees will be implemented in compliance with existing law.
- The City will pay for all current expenditures with current revenues. The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses such as postponing essential expenditures or relying on uncertain revenues from future years. Both revenues and expenses will be recognized as they occur.

- The City will maintain a broad-based, well-diversified portfolio of revenues, with a continued diminishing reliance on property taxes. Whenever appropriate, the revenue burden shall be focused on sales tax, utility fees, or user fees.
- The City's general policy is to use major one-time revenues to fund capital improvements or reserves. The use of one-time revenues to fund ongoing expenditures is discouraged.

### ***Expenditure Policies***

- Planning and budgeting of major expenditures will be based upon a priority setting process that is designed to narrow the range from a list of desirable expenditures to financially feasible expenditures.
- Each year, the Finance Department will update expenditure projections for the next three years. Projections will include estimated operating costs, capital outlays, debt service, and capital improvement program expenditures.
- As the City conducts its long-range financial planning; special emphasis will be placed on maintaining and improving the physical assets of the City, including public facilities and equipment.
- In an effort to reduce the cost of capital expenditures, Federal, State and other intergovernmental and private funding sources shall be applied for and used as available. A concerted effort in applying for matching grants is strongly encouraged.

### ***Financial Reporting Policies***

- The City's accounting and financial reporting systems shall be maintained in conformance with the current accepted principles and standards of Government Accounting Standards Board and Government Finance Officers Association.
- The City Manager shall on at least a quarterly basis provide the Board of Aldermen with a written financial report summarizing the current financial condition of the City and relating current year-to-date summaries of revenues and expenditures as compared with budget projections. Unusual variances that could significantly affect the adopted budget shall be reported to the Board promptly.
- Within thirty days of the close of the fiscal year, the City Manager shall submit a report to the Board of Aldermen summarizing the accomplishments of the past year with respect to the goals and objectives outlined in the Budget. This report shall be in addition to the Annual Financial Report compiled by the Certified Public Accountants retained by the Board of Aldermen to conduct the annual financial audit.