City of Petersburg
Virginia

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City Council

Samuel Parham, Mayor – Ward 3
John A. Hart, Sr., Vice Mayor – Ward 7
Treska Wilson-Smith, Councilor – Ward 1
Darrin Hill, Councilor – Ward 2
Charles Cuthbert, Councilor – Ward 4
W. Howard Myers, Councilor – Ward 5
Annette Smith-Lee, Councilor – Ward 6

City Manager

Aretha R. Ferrell-Benavides

SPECIAL CITY COUNCIL MEETING AGENDA

July 16, 2020
Live Stream
Petersburg, VA
12:00pm

1. **Call to Order**
2. **Roll Call**
3. **Reports/Considerations:**
   a. COVID-19 Update
   b. Water Collection Emergency Services Update
   c. Consideration of adoption of the update financial policy guideline by resolution.
   d. Petersburg Public Library Funding
4. **Adjournment**

3c.

City of Petersburg

Ordinance, Resolution, and Agenda Request

DATE: July 16, 2020

TO: The Honorable Mayor and Members of City Council

THROUGH: Aretha R. Ferrell-Benavides, City Manager

FROM: Robert A. Floyd, Director of Budget & Procurement

RE: **Consideration of Updated Financial Policy Guidelines**

PURPOSE: To consider updated Financial Policy Guidelines

REASON: Effective Financial Policy Guidelines contribute significantly to the City's ability to insulate itself from fiscal crisis, enhance short-term and long-term financial credit of the City by helping to achieve the highest credit and bond ratings possible, promote long-term financial stability, and provide City Council and the residents with a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

RECOMMENDATION: Recommend City Council approve the attached updated Financial Policy Guidelines.

BACKGROUND: This financial policy is a statement of guidelines and goals that will influence and guide the management practice of the City of Petersburg, Virginia. Financial Policy Guidelines that adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. These Financial Policy Guidelines were originally adopted in September 2014, and then amended in April 2017. The foundation of the Financial Policy Guidelines are the same as they have been previously, but since the City of Petersburg has been recovering from the fiscal crisis that it once faced, these Financial Policy Guidelines need to better reflect the fiscal environment that the City of Petersburg faces now and in the future.

COST TO CITY: N/A

BUDGETED ITEM: N/A

REVENUE TO CITY: N/A

CITY COUNCIL HEARING DATE: July 16, 2020

CONSIDERATION BY OTHER GOVERNMENT ENTITIES: None

AFFECTED AGENCIES: Budget & Procurement and Finance

RELATIONSHIP TO EXISTING ORDINANCE OR RESOLUTION: None

REQUIRED CHANGES TO WORK PROGRAMS: None

ATTACHMENTS:

STAFF: Robert A. Floyd, Director of Budget & Procurement

CITY OF PETERSBURG, VA

FINANCIAL POLICY GUIDELINES

City of Petersburg, VA

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City of Petersburg, VA

1. FINANCIAL POLICY OBJECTIVES

This financial policy is a statement of the guidelines and goals that will influence and guide the management practice of City of Petersburg, Virginia. Financial Policy Guidelines that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Effective financial policy guidelines:

- Contribute significantly to the City's ability to insulate itself from fiscal crisis.
- Enhance short-term and long-term financial credit of the City by helping to achieve the highest credit and bond ratings possible.
- Promote long-term financial stability by establishing clear and consistent guidelines.
- Direct attention to the total financial picture of the City rather than single issue areas.
- Promote the view of linking long-run financial planning with day to day operations.
- Provide the City Council and the citizens with a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.
- Ensure that the organization has sufficient resources to perform mandated responsibilities.

While adherence to this policy is expected, the City understands that changes in the capital markets, City programs, or other unforeseen circumstances may from time to time produce situations that are not covered by this policy and will require modifications or exceptions to achieve the policy goals. In these cases, the City's management may act, provided specific authorization from the City Council is obtained. These Financial Policy Guidelines shall be reviewed at least every two years by the Fiscal Management Team, who shall in turn report their findings to the City Manager and City Council.

2. BUDGET DEVELOPMENT POLICIES

Principles

- The budget development process will be a collaborative process to include residents, City Council, and staff.
- The City will strive to maintain diversified and stable revenue streams to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services.
- The City will avoid dedicating revenue to a specific project or program because of the constraint this may place on flexibility in resource allocation except in instances where programs are expected to be self-sufficient or where revenue is dedicated to a program for statutory or policy reasons.
- The budget process will be coordinated in a way that major policy issues are identified for City Council several months prior to consideration of budget approval. This will allow adequate time for appropriate decisions and analysis of financial impacts.

Policies

- City Council shall adopt a balanced budget in accordance with all legal requirements.
- All operating budget appropriations shall lapse at the end of the fiscal year to the extent that they are not expended or encumbered.
- The budget shall be adopted by the favorable vote of a majority of members of City Council.
- The Vision and priorities established by City Council as well as the Strategic Plan will serve as the framework for the budget proposed by the City Manager.
- Current revenues will fund current expenditures. One-time or other special revenues will not be used to finance continuing City operations but instead will be used for funding special projects.
- The City will pursue an aggressive policy seeking the collection of delinquent utility, license, permit and other fees due to the City via the utilization of third-party collection agencies.
- The City will prepare and annually update a long range (5 year) financial forecast model utilizing trend indicators and projections of annual operating revenue, expenditures, capital improvements with related debt service and operating costs, and fund balance levels.
- Expenditure and revenue projections will be developed monthly and reviewed with Departmental Directors, the City Manager, and City Council. The City Manager, through the Budget Department, will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget.

Process

- The City Manager must annually prepare and present a Proposed Budget for City Council review no later than April 1st. The Proposed Budget shall serve as a financial plan for the upcoming fiscal year and shall contain the following information.
    1. A budget message that outlines the proposed revenue and expenditures for the upcoming fiscal year together with an explanation of any major changes from the previous fiscal year. The budget message should also include any proposals for major changes in financial policy.
    2. Charts indicating the major revenues and expenditures in each major fund (General, Utilities, Grants, CDBG, Streets, Stormwater, Golf, Transit) as well as changes in fund balance for all funds.
    3. Summaries of proposed expenditures for all funds proposed to be expended in a fiscal year.
    4. A schedule of estimated requirements for the principal and interest of each bond issue.
    5. A three-year history of revenues and expenditures to include the prior year actual, current year adopted, revised, and proposed budgets for each major fund.
- The City Council shall hold a public hearing on the budget submitted by the City Manager for interested citizens to be given an opportunity to be heard on issues related to the proposed budget, including the Capital Improvement Plan.
- Following the public hearing on the Proposed Budget, City Council may make adjustments. The City Council can only make recommended changes that keep the budget in balance and that are Adopted with at least four members of City Council's prior approval.
    - In instances where City Council increases the total proposed expenditures, it shall also identify a source of funding at least equal to the proposed expenditures.

3. CAPITAL IMPROVEMENT POLICIES

The City will develop a five-year Capital Improvement Plan which will serve as the basis for planning and prioritizing the City's capital improvement needs based on affordability and compliance with Debt and Reserve Policies. The Capital Improvement Plan will only include projects with identified and known realistic funding sources. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.

1. The City will consider all capital improvements in accordance with an adopted Capital Improvement Plan.
2. The City, in consultation with the City of Petersburg Public School System, will develop a five-year Capital Improvement Plan that includes funding sources and uses and review and update the plan annually.
3. The City will enact an Annual Capital Budget based on the five-year Capital Improvement Plan. The first year of the Capital Improvement Plan will be used as the basis for the Annual
4. The City will coordinate development of the Annual capital Budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
5. The City will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
6. The City will project its equipment replacement and maintenance needs in conjunction with the five- year Capital Improvement Plan and will develop a maintenance and replacement schedule to be followed.
7. The City will attempt to determine the least costly and most flexible financing method for all new projects.
8. The City will target a minimum amount of equity (e.g. cash pay-as-you- go) funding of 5% of the General Fund supported Capital Improvement Plan on a five-year rolling average after reaching the Unassigned Fund Balance Policy Goal.

4. DEBT POLICIES

The City will take on, manage and repay debt according to the following debt policies:

1. The City will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the City finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Direct Net Debt as a percentage of estimated market value of all taxable property shall not exceed a range of 4.0% to 4.5%. Direct Net Debt is defined as any and all debt that is tax-supported. This ratio will be measured annually.
4. The ratio of Direct Net Debt Service expenditures as a percent of Total Governmental Fund Expenditures should not exceed 10%. Direct Net Debt Service is defined as any and all debt service that is tax- supported. Utility Fund debt service that is self-supporting shall be excluded. Total Governmental Fund Expenditures includes the General Fund and School Component Unit Expenditures less the local government transfer. This ratio will be measured annually.
5. Payout of aggregate outstanding tax-supported Direct Net Debt principal shall be no less than 50% repaid in 10 years.
6. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition. The City will regularly analyze total indebtedness including underlying and overlapping debt.
7. Where feasible, the City will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
8. The City will retire tax anticipation debt, if any, annually.

5. RESERVE POLICIES

The City believes that sound financial management principles always require that sufficient funds be retained by the City to provide a stable financial base. To retain this stable financial base, the City needs to maintain fund balance reserves sufficient to fund all cash flows of the City, to provide financial reserves for unanticipated or emergency expenditures and/or revenue shortfalls, and to provide funds for all existing encumbrances. The purpose of this policy is to specify the composition of the City's financial reserves, set minimum levels for certain reserve balances, and to identify certain requirements for replenishing any fund balance reserves utilized.

1. Fund Balance Categories: For documentation of the City's fund balance position, communication with interested parties and general understanding, a clear and consistent system of classification of the components of the City's fund balances is necessary. The City's reporting and communication relating to fund balance reserves will utilize the classifications outlined in generally accepted accounting principles (GAAP). GAAP dictates the following hierarchical fund balance classification structure based primarily on the extent to which the City is restricted in its use of resources.
    a. Non-spendable Fund Balance: These are fund balance amounts that are not in a readily spendable form, such as inventories or prepayments, or trust or endowment funds where the balance must remain intact.
    b. Restricted Fund Balance: These are amounts that have constraints placed on their use for a specific purpose by external sources such as creditors, or legal or constitutional provisions.
    c. Committed Fund Balances: These amounts are designated for a specific purpose or constraints have been placed on the resources by City Council. Amounts within this category require City Council action to commit or to release the funds from their commitment.
    d. Assigned Fund Balances: These are amounts set aside with the intent that they be used for specific purposes. The expression of intent can be by City Council or their designee and does not necessarily require City Council action to remove the constraint on the resources.

e. Unassigned Fund Balances: These are amounts not included in the previously defined categories. The City General Fund is the only fund that should report a positive Unassigned Fund Balance. Amounts in this classification represent balances available for appropriation at the discretion of City Council. However, City Council recognizes that the Unassigned Fund Balance needs to be sufficient and comprised of liquid cash and investments to meet the City's cyclical cash flow requirements and allow the City to avoid the need for short term tax anticipation borrowing. The Unassigned Fund Balance should also allow for a margin of safety against unforeseen expenditures that could include, but not be limited to, natural disasters, severe economic downturns, and economic development opportunities. Unassigned Fund Balance shall not be used for annual recurring expenditures, except for unforeseen emergency circumstances. The City shall have a Minimum Initial Target unassigned fund balance that represents 30 days of its general fund operating expenditures. This will include the City budgeting $1,000,000 annually toward the Unassigned Fund Balance. Upon reaching the Minimum Initial Target the City shall budget $500,000 toward the Fund Balance Replenishment and $500,000 to fund Pay-Go Capital Projects.

   Within three years following, the City meeting the Minimum Initial Target, the City shall increase the Unassigned Fund Balance to a balance that represent 60 days of its general fund operating expenditures.

   To the extent that the City has any remaining operating surplus after all expenditures (including the Annual Budgeted Amount) have been satisfied, the City shall apply at a minimum 75% of such remaining operating surplus to further accelerate the build- up of the Unassigned Fund Balance.

City Council recognizes that if amounts above the 10% Policy Goal exist, City Council could contemplate strategically utilizing these amounts, if appropriate. However, City Council also recognizes that maintaining an Unassigned Fund Balance above the minimum policy level may be beneficial to the overall wellbeing of the City. Should any amounts above the 10% policy exist they should only be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years. Amounts above the 10% policy minimum could be used for the following purposes (listed in order of priority):

i. Increase Restricted Fund Balances as necessary.
ii. Fund an additional reserve for use during an emergency or during periods of economic uncertainty or budget adversity. Such additional reserves shall be determined by City Council.
iii. Allocating such amounts toward equity funding of the Capital Improvement Plan or transfer to the Capital Improvement Fund.

2. Prioritization of Fund Balances: As indicated, the fund balance classifications outlined above are based on the level of restriction. In the event expenditures qualify for disbursement from more than one fund balance category, it shall be the policy of City of Petersburg that the most constrained or limited fund balance available will be used first. Unassigned fund balance will be used last.

3. Accounting for Encumbrances: Amounts set aside for encumbered purchase orders may be either restricted, committed or assigned fund balance depending upon the resources to be used to fund the purchases. Amounts set aside for encumbrances may not be classified as unassigned since the creation of an encumbrance signifies a specific purpose for the use of the funds.

4. Replenishment of the Unassigned Fund Balance: Upon the use of any Unassigned Fund Balance, which causes such fund balance to fall below either the Policy Goal and/or Minimum Initial Target levels, City Council must approve and adopt a plan to restore amounts used within 24 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the City, then the City Council will establish a different time period.