

FINANCIAL AND FISCAL POLICIES

The City of Iowa City's financial policies set forth the basic framework for the overall fiscal management of the City. These policies assist the decision-making process of the City Council. These policies provide guidelines for evaluating both current activities and proposals for future programs.

Most of the policies represent long-standing principles, traditions and practices, and follow generally accepted accounting principles which have guided the City in the past and have helped maintain financial stability.

OPERATING BUDGET POLICIES

- The City will prepare an annual balanced budget for all operating funds. A balanced budget is one that has revenues sufficient to equal expenditures.
- The City will maintain a budgetary control system to ensure adherence to the budget and will prepare quarterly reports comparing actual revenues and expenditures to budget.
- Operating budgets are established on a fund/department/division/activity basis.
- A contingency account will be maintained in the annual General Fund operating budget to provide for unanticipated expenditures or to meet unexpected small increases in service delivery costs, budgeted annually at approximately one percent of expenditures and transfers out.
- Budget amendments may be submitted twice per year and require approval of the Department Director, the Finance Director, and the City Manager. The City Council formally reviews and approves all budget amendments processed by staff twice per year – once in the late summer/early fall and once in the spring.
 - 1) Increases or amendments to operating budgets are made only in the following situations:
 - emergency situations
 - transfer from contingency
 - expenditures with offsetting revenues or fund balance
 - carry-over of prior year budget authority for expenses that had not been incurred as of the end of the fiscal year.
 - 2) Emergency Reserve funds will be transferred to operations for the following purposes:
 - to provide natural or other disaster response or mitigation funding/interim loans
 - to mitigate fluctuations or sudden elimination of State of Iowa property tax backfill or other State operating assistance
 - to mitigate pension, insurance, or health care funding anomalies, emergencies, or spikes
 - to avoid any defaults from the payment of long term or bonded debts
 - for any other financial emergencies declared by the City Council

- 3) Departments may request to carry-over appropriations into the next fiscal year that remain unspent at the end of the fiscal year. These requests are submitted to the Finance Director for review and then approved or denied by the City Manager, and are amended into the following year's budget. In order for an appropriation to be carried forward into the next fiscal year, it must meet the following criteria:
- The appropriation must be for an item or service specifically listed in the requesting department's budget. Appropriations for regular and ordinary operating expenditures may not be carried forward.
 - The amount of the appropriation may not be lower than the lesser of 1) one percent of the activity's budget, or 2) \$5,000.
 - All appropriations to be carried forward are contingent upon adequate, available resources and fund balance.
 - Capital improvement projects that span across fiscal years must be re-appropriated each year in accordance with State budget law. The Finance Department compiles a summary of capital projects and their remaining, unspent appropriations at year-end. These unspent project appropriations are included as part of the budget amendment for the following fiscal year.

OPERATING BUDGET PREPARATION CRITERIA

General Guidelines:

- Maintain the fiscal integrity of the City's operating and capital improvement budgets in order to provide services and to construct and maintain the City's infrastructure.
- Maintain the City's responsible fiscal position and Aaa bond rating.
- Present budget data to the City Council in a format that will facilitate annual budget decisions based on a three-year planning perspective. Provide the City Council with a summary of the three-year forecasts.
- Encourage community involvement in the annual budget decision-making process through public hearings, informal meetings, budget briefs and related informational efforts.

Service Level Guidelines:

- Deliver service levels which are consistent with the community's willingness to pay and the City's available resources.
- Base decisions to reduce service levels or eliminate activities on City Council's strategic plan priorities.
- Recognize that City employees are one of the City government's most valuable resources and are essential to the delivery of high quality, efficient services.

Revenue Guidelines:

- Property tax levy rates will not exceed the limits as established by the State of Iowa.

- Revise user fee rate structures to recover the cost of the service provided to the benefiting customers while maintaining sensitivity to low income residents.

Expenditure Guidelines:

- Support responsible management efforts to increase productivity by providing resources for office automation, preventive maintenance, risk management/employee safety, and employee training.

REVENUE POLICIES

- The City will try to maintain a diversified and stable revenue system to minimize short-run fluctuations in any one revenue source.
- The City will attempt to maximize benefits from major revenue sources as a way of maintaining a competitive property tax rate.
- The City will follow an aggressive policy of collecting revenues.
- The City will establish all user charges and fees at a level related to the full cost (operating, direct, and indirect) of providing the service, whenever practical.
- The City will review licenses, fees, and charges annually to determine if the revenues support the cost of providing the service.
- The financial goal of the Recreation division is for program fees to provide 40% of the division's funding.
- Parking, Refuse, Wastewater Treatment, Storm Water, Landfill, and Water funds will be self-supporting through user fees. Self-supporting shall be defined as maintaining a positive net income after depreciation but before capital contributions, transfers, and extraordinary items using a GAAP basis of accounting.
- Rate adjustments will be submitted to the City Council by ordinance if state or locally legislated, or by resolution (if not state or locally legislated).

ECONOMIC DEVELOPMENT POLICIES

- Alignment with the City's Strategic Plan will provide the first indicator about whether a project may be eligible for TIF.
- The City will continue to seek projects that diversify existing uses in the given urban renewal area. Such projects may include Class A office, hotel, entertainment, and residential uses, provided market studies and financial analysis support such investment.
- New office and mixed-use building projects receiving TIF in any urban renewal area shall be certified Silver or better under the LEED for New Construction Rating System current at the time of design development. New Residential projects shall be certified Silver under the National Green Building Standard or the LEED Green Building Rating System appropriate to the building type. For LEED projects, at least 8 points shall be awarded for the LEED-NC

Optimize Energy Performance credit.

- Applications for TIF support for downtown projects must indicate how the proposed project will help fulfill the overall vision of the downtown portion of the Downtown and Riverfront Crossings Plan, while encouraging appropriate infill redevelopment with a mix of building uses. Building heights must conform to the Desired Heights map in the Plan or provide exceptional public benefits to be considered otherwise. The provisions of this section will apply until a Downtown Form-Based Code or urban design plan is adopted.
- Properties in the downtown area are designated one of four ways in relation to historic preservation and affect whether a project may be eligible for TIF. More detail is available on this policy.
- TIF projects in any urban renewal area with a residential component as part of the project must provide a minimum of 15% of the units as affordable to tenants at or below 60% AMI (area median income). If those housing units are for sale, units will be targeted to households at or below 110% AMI.
- The City will not contract with or provide any economic development incentives to any person or entity who has participated in wage theft by violation of the Iowa Wage Payment Collection law, the Iowa Minimum Wage Act, the Federal Fair Labor Standards Act (FLSA) or any comparable state statute or local ordinance, which governs the payment of wages.
- When a TIF project is based on the creation or retention of jobs, certain wage thresholds must be met to help ensure the City's financial participation only serves to increase the average area wage. As a policy to incentivize the addition of high paying jobs to the local economy, a jobs-based TIF incentive would be structured using the thresholds of the State of Iowa High Quality Jobs Program.
- Recognizing that some non-profit activity and/or investment in public infrastructure may influence additional private economic development activity, TIF may be an appropriate tool to further investment in Iowa City's cultural and/or natural assets, such as Arts and cultural activities or facilities, historic preservation, public improvements that serve as a catalyst for the economic development of the urban renewal area.
- Designed to provide a consistent and transparent process for the review and analysis of all applications for TIF assistance, applications must be complete, must demonstrate sufficient need for the City's financial assistance, such that without it, the project would not occur, it should be understood that the preferred form of TIF is rebate, developer equity must be equal to or greater than City funding, and it must be project based in that the project must generate TIF increment sufficient to be self-supporting.

CAPITAL IMPROVEMENT PROGRAM BUDGET POLICIES

- The City will develop a five-year Capital Improvement Program (CIP), which will be reviewed and updated annually, comply with City Council goals and be compatible with the Comprehensive Plan whenever possible.
- The complete five-year CIP funding plan must be balanced each year by matching projected expenditures with proposed revenue sources by fund.

- Funding for projects should be obtained through borrowing from:
 - bond market, general obligation or revenue bonds
 - enterprise fund operations and reserves
 - internal loans
- The City may utilize General Fund cash balances to fund capital projects whenever available and feasible. For the Airport, it is policy that the General Fund will match up to \$100,000 in grants received per year.
- The City shall utilize available funding sources for capital improvements whenever practical and feasible such as but not limited to:
 - federal and state grant funds
 - special assessments
 - developer contributions
- The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs. The budget will provide for the adequate maintenance and the orderly replacement of the capital plant and equipment from current revenues when possible.

RESERVE POLICIES

- The City will establish a contingency line-item in the annual General Fund operating budget to provide for unanticipated expenditures or to meet unexpected small increases in service delivery costs, and will be budgeted at approximately one percent of expenditures.
- Operating fund balances at fiscal year-end will be maintained at a level to ensure sufficient cash flow throughout the fiscal year. Unassigned fund balance in the General Fund reserves will not go below 25% of total revenues and transfers in, with a ceiling of 35%. Fund balances in excess of 35% will be transferred to the City's Emergency fund, used to retire outstanding debt, and/or be used to provide property tax relief.
- The City will maintain an Emergency fund and will strive to maintain the balance at an amount equal to the State reimbursement for commercial/industrial property tax replacement plus the City's pension and OPEB liabilities.
- Debt reserves will be maintained in accordance with applicable bond covenants in the Water, Wastewater, Parking, and business-type funds with outstanding revenue bonds.
- Reserves will be maintained in the City's business-type funds to ensure sufficient cash flow throughout the year as well as funds for capital repairs and infrastructure replacement. Unassigned reserves shall be limited to accumulated depreciation plus 35% of revenues and transfers in. Excess reserve balances will be transferred to the Emergency fund, used to retire outstanding debt, used to provide utility rate relief, or be reserved for future capital improvement needs.
- Reserves will be maintained for equipment replacement and for unexpected major repairs in the following areas: Parking, Wastewater, Water, Landfill, Transit, Equipment Replacement,

Information Technology Services, Central Services, Cable Television Equipment, and Library Computer Equipment.

- Reserves, based on actuaries, will be maintained for the Risk Management Loss Reserve, Health and Dental Insurance Reserves. Excess reserve balances may be transferred to the Emergency fund if the City's OPEB liabilities are not fully funded.
- All City trucks, cars and necessary accessories will be maintained on a replacement cost basis each year. A separate reserve fund has been set up to fund these replacements. Additions to the fleet are made through allocations in the annual budget. Only Fire Department fire trucks and equipment and Transit buses will be eligible to be purchased through the issuance of debt.
- All general obligation debt will be paid from the Debt Service Fund. General Obligation debt applicable to Enterprise Fund projects will be paid out of the Debt Service Fund, but will be abated from revenues from the respective Enterprise Fund(s).

DEBT POLICIES

- Debt shall only be used to finance capital improvement projects, firefighting equipment, affordable housing developments, or economic development projects. Funding non-emergency capital improvement projects shall not be authorized by the City Council unless the project has been included in the Five-Year Capital Improvement Plan (CIP).
- The City shall strive to limit debt and to fund projects on a pay-as-you-go basis when possible.
- The City shall manage its debt program so that the amount of net direct debt outstanding at any time does not exceed 1.50% of the City's total assessed value. The City shall strive to meet the Moody's Aaa benchmark of net direct debt outstanding of .75% of the City's total assessed value. The City's total outstanding long-term debt will adhere to State law which sets the limit at 5% of the city's total assessed value. The use of annually appropriated debt obligations for the purpose of circumventing the debt limits of this policy is prohibited.
- The City's debt service property tax levy shall not exceed 30% of the total property tax levy.
- The City may finance capital needs through the issuance of revenue-secured debt obligations. For new issues, the amount of revenue-secured debt obligations issued should have a projected minimum revenue coverage ratio of at least 1.25 times annual debt service at issuance.
- Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users. General obligation bonds will be limited to State law as to the length of debt.
- To the extent possible, repayment of debt should be structured so as to rapidly pay down principal and should use a level principal or other rapidly amortizing structure whenever possible. Long-term bonded debt should, as a general rule, be structured with level debt service payments.

- The City may use lease-purchase obligations in lieu of bonded debt. Use of these instruments will be limited to specific projects or purposes and will not be utilized as a general practice for the financing of capital improvement projects.
- The City may enter into agreements with commercial banks or other financial entities for purposes of acquiring lines of credit that shall provide access to credit under terms and conditions as specified in such agreements.
- The City may choose to issue Bond Anticipation Notes (BANs) or similar structures as a source of interim financing. Tax and Revenue Anticipation Notes will be used only on an emergency basis and will not be used as a general practice to finance ongoing operations.
- General Obligation new money bonds shall be issued by competitive sale. Debt, except for General Obligation new money bonds, may be sold through a negotiated sale or a private placement or limited public offering where it is determined to be the best method to achieve a lower interest cost and/or effectively market the debt.
- The City may issue refunding bonds when legally permissible and prudent. The net present value savings for an advanced refunding should equal or exceed seven percent. The net present value savings for a current refunding should equal or exceed five percent. The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management regardless of projected net present value savings.
- The City's preferred rating agency will be Moody's Investors Service. The City will strive to maintain a Moody's bond rating of 'Aaa' for its General Obligation Unlimited Tax (GOULT) bonded indebtedness. The City will strive to maintain a Moody's rating of 'A3' or higher for its revenue bonded indebtedness.
- The City, as a practice, will not use derivative products in financing transactions.
- The Finance Director shall provide the City Manager and City Council an annual long-term debt disclosure report within 210 days after the fiscal year-end regarding the City's outstanding debt and debt program.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

- Quarterly financial reports will be prepared and submitted to the City Council.
- A three-year financial plan for all operating funds will be prepared by the City Manager and presented to the City Council for their review. This will include the current revised year and two projected years.
- A Five-Year Capital Improvement Program budget will be prepared, reviewed, and revised annually.
- An independent audit will be performed annually for all City funds.
- The City will produce a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles as outlined by the Governmental Accounting Standards Board.