



FY 20 BUDGET MEMO # 29

DATE: April 26, 2019

TO: The Honorable Mayor and Members of the City Council

THROUGH: Robert A. Stalzer, City Manager *RA Stalzer*

FROM: Kerry Kidd, Budget Manager

SUBJECT: City Council Financial Policies

As requested by Councilmember Miller.

The attached is a copy of the current Council Adopted Financial Policies. This document may also be found on pages A-15 through A-17 of the FY 2020 Proposed Budget.

Five year forecast and additional potential policy guidance, such as, vehicle and information technology replacement funds, will be presented at the offsite on July 13.

Council Adopted Financial Policies

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the City, in April 2000, the City Council initially enacted a comprehensive set of Financial Policies, as detailed below. The goal of these policies is to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Fairfax. Revisions to the financial policies were incorporated per recommendations by the Budget Committee and approved by the City Council in November of 2008. Further revisions were developed by the Financial Policy Committee and City Management in concert with the City's Financial Advisor and approved by City Council on March 13, 2018.

Budgeting Policies:

1. The City's annual operating budget, capital budget and Capital Improvement Program (CIP) shall be coordinated with, and shall be in concert with, the City's Comprehensive Plan.
2. The City shall adhere to the following guidelines in preparing, implementing and executing the annual budget:
 - a. Mayor and City Council shall develop general budget guidelines and provide them to the City Manager by November 15.
 - b. The Capital Improvement Program shall be considered by the City Council prior to its consideration of the annual budget.
 - c. Where appropriate, revenues related to expenditures shall be reflected in the budget documents.
 - d. The Mayor and City Council shall meet with selected boards and commissions in work sessions as part of the budget deliberations to review budget items concerning areas of interest to the boards and commissions.
 - e. The Mayor and City Council shall conduct a quarterly review of the execution of the budget.
3. Budgeted current revenues must be greater than budgeted current expenditures.
 - a. Significant one-time revenues shall be used only for one-time expenditures.
 - b. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.

4. The target for the General Fund transfer to the Capital Fund shall be at least five percent of General Fund expenditures to help insure adequate reinvestment in capital plant and equipment. This transfer percentage incorporates the City’s use of annual debt service payments toward capital projects.
5. The City shall annually update a multi-year financial forecast that takes into account projected operating revenues and expenditures as well projected capital needs. The multi-year financial forecast will also track projected compliance with the City’s financial policy guidelines.
6. The City shall set utility rates that will ensure a self-supporting Wastewater Fund that does not rely on recurring financial support from the City’s General Fund.

Reserve Policies:

1. The General Fund Unassigned Fund Balance should be grown to a minimum of 12% of total General Fund revenues (as defined below) by the end of fiscal year 2020. The Unassigned Fund Balance will be measured for policy compliance at the end of each fiscal year. The City anticipates dedicating already earmarked transportation fund reserves, potential school tuition surpluses, and/or other annual surpluses to the Unassigned Fund Balance until the 12% target is met. If these previously listed sources of potential funding are insufficient to meet the target the City will pro-actively adjust its budget to meet the 12% target by the end of FY 2020.
2. Once the Unassigned Fund Balance policy is met, the City shall establish a Budget Stabilization Fund (“BSF”) within the assigned portion of the General Fund Balance. At the close of each audited fiscal year, the BSF shall receive a minimum of 25% of any prior year operating surplus as calculated as part of the prior fiscal year audit. Balances in the BSF will be allowed to accumulate until they reach an amount equal to 3% of General Fund Revenues. Balances in the BSF are available for:
 - a. reserves against shortfalls in the City’s portion of WMATA funding;
 - b. unforeseen school tuition contract increases;
 - c. a declared fiscal emergency;
 - d. a financial opportunity(s) to enhance the well-being of the City; or,
 - e. other such global purpose as to protect the long-term fiscal security of the City.

If the BSF reaches the maximum 3% level, the portion of any surplus normally allocated to the BSF will be allowed to fall to Unassigned Fund Balance, which may be appropriated by City Council for any one-time expenditure.

3. If the Unassigned General Fund Balance falls below its minimum threshold of 12% of total general fund revenues a reserve replenishment plan will be enacted that restores the Fund Balance Reserve to its minimum level within the subsequent three fiscal years.
4. Revenues used in the fund balance calculation shall include total General Fund Revenues as reported in the CAFR with the following adjustments:
 - a. Exclude Old Town Special Tax District Revenues reported in the General Fund;
 - b. Exclude Stormwater Tax Revenues reported in the General Fund;
 - c. Exclude Commercial and Industrial Tax Revenues reported in the General Fund;
 - d. Include revenues reported in the School Operating Fund other than the local transfer from the General Fund.

Debt Policies:

1. Debt Service Targets
 - a.. Annual debt service expenditures shall be less than nine percent of annual expenditures.
 - b. Outstanding Debt shall be less than three percent of assessed valuation.
2. The term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Revenue/Cash Management Policies:

1. The City shall develop an aggressive economic development effort in order to lessen the impact of any future real estate rate increases.
2. The City shall maintain a diversified revenue base in order to shelter City finances from short-term fluctuations in any single revenue.
3. Annual City revenues shall be projected by an objective and thorough analytical process.
4. Investment of City funds shall emphasize the preservation of principal with safety, liquidity and yield being the primary factors considered.

Accounting/Auditing and Financial Reporting Policies:

1. The City shall take necessary action to ensure receipt of the Government Finance Officers Association annual accreditation for the budget and for the comprehensive annual financial report (audit).
2. An independent audit shall be performed annually and a management letter shall be received by City Council. City administration shall prepare a response to the management letter on a timely basis to resolve any issues contained in the letter.