

STAFF REPORT

TO: City Council Finance Committee Date: September 13, 2011
FROM: Lauren Bradley, Finance & Management Services Director
Via: Gary W. Jackson, City Manager
Subject: Financial Policy Update

Summary: Consideration of a motion to approve an update to the City of Asheville's Financial Policy.

Review: The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) recommend that local governments adopt and annually review a financial policy to help frame resource allocation decisions as a part of a comprehensive set of recommended budget practices. Staff should annually review the policy to ensure its continued relevance and to identify any gaps that need to be addressed.

As part of this annual review process, staff is recommending that City Council consider approving an updated policy. The two most significant updates to the policy include an expansion of the section on "Reserves" and the addition of a section on "Interfund Transfers." Each of these areas is described further below.

(1) Reserves

Reserves, or fund balances, provide working capital to ensure adequate cash flow to pay vendors and others in a timely manner, to meet emergency or unforeseen needs, and to be able to take advantage of unexpected opportunities that require the expenditure of money. In the proposed Financial Policy, the section on Reserves (Paragraph B, Section 2) has been expanded to include fund balance targets for all operating funds. Previously, the policy on reserves only referenced the General Fund.

The proposed targets for reserves in most funds are based on the Local Government Commission's recommendation that cities and counties maintain a general fund balance of at least 8 percent of expenditures for the year. Staff is recommending that the City seek to maintain this standard in the Golf Fund, Parking Fund, and Stormwater Fund. In addition, staff is recommending this standard for the Transit Fund, although a portion of those reserves may be reflected in the General Fund's existing reserve target since transit operations rely heavily on financial support from General Fund. At the end of FY 2011, it is anticipated that the Parking Fund and the Stormwater Fund will meet or exceed the proposed fund balance standard. The City is pursuing alternatives that will assist the Golf Fund in meeting the standard in future years.

The proposed target for Civic Center reserves is recommended at a higher rate, 16%, due to greater fluctuations in cash flow requirements as a result of events – settlements often occur on the day of the event with final ticket sale receipts credited after the event. At the end of FY 2011, it is anticipated that the Civic Center Fund will exceed this target.

By the nature of water operations, water utilities are highly capital intensive, meaning they require large expenditures of capital in order to provide the service. In addition, credit rating standards regarding the maintenance of working capital are extremely high for water utilities with superior credit such as the City's water utility. As a result, staff recommends that the Water Fund maintain a minimum of 365 days of working capital, which is a comparable standard for utilities in cities with populations of 50,000 or more. At the end of FY 2011, it is anticipated that the Water Fund will exceed this target.

(2) Interfund Transfers

A section on interfund transfers has been added to the policy to clarify how those transfers will be handled during the annual audit process. The section states that if financial performance in an enterprise operating fund that receives a General Fund transfer is better than budgeted, and the enterprise fund meets the reserve standards set in the policy, then any remaining portion of the interfund transfer shall be returned to the General Fund as part of the audit. Staff will provide City Council with a status report on interfund transfers during the audit process.

Pros:

- Updates the City's financial policy to ensure it is accurate and current.
- Provides greater guidance on targets for reserves and interfund transfers.

Cons:

- None noted.

Recommendation: Staff is seeking the Finance Committee's feedback on the proposed Financial Policy. If the committee is satisfied with the proposed policy, staff recommends that it move forward for City Council consideration at the September 27, 2011 meeting.

Attachments: City of Asheville Financial Policy