CITY OF ASHEVILLE

Subject:	Financial Policies
Effective Date:	
Issued and maintained by:	Finance & Management Services Department
Adopted by City Council:	

The City of Asheville financial policies establish general guidelines for the fiscal management of the City. These guidelines, influenced by the North Carolina Local Government Budget and Fiscal Control Act and sound financial principles, provide the framework for budgetary and fiscal planning. Operating independently of changing circumstances and conditions, these policies assist the decision-making processes of the City Council and city administration.

A. *Operating Budget Policy*

1. Current operating expenditures will not exceed current operating revenues. Fund balance appropriations shall be limited to non-recurring expenditures.
2. Debt proceeds or non-recurring revenues will not be used to finance recurring operating and recurring capital expenditures.
3. The City will integrate performance measures and productivity indicators with the annual budget.
4. The City will prepare a five-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.
5. It is the City's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles.

B. *Reserves*

1. The City will maintain an undesignated fund balance equal to or greater than 15% of the General Fund operating budget, with any amount in excess of 15% being available for allocation according to the direction of City Council.
2. For all other operating funds, the City shall seek to maintain a minimum fund balance as follows:

Civic Center Fund	16% of the operating budget
Golf Fund	8% of the operating budget
Parking Fund	8% of the operating budget
Stormwater Fund	8% of the operating budget
Transit Fund	8% of the operating budget (portion may be reflected in the General Fund)
Water Fund	100% of operating budget/365 days of working capital

C. *Interfund Transfers*

1. The City will strive to ensure that the enterprise funds are financially self-sufficient; however, the City may budget a transfer from the General Fund to an enterprise fund to ensure operational and/or capital support for the activities of the fund. If financial performance in the

enterprise operating fund is better than budgeted, and the enterprise fund meets the reserve standards set in Section B of this policy, then any remaining portion of the interfund transfer shall be considered by Council to be returned to the General Fund as part of the annual financial audit process.

D. Revenue Policy

1. Revenue estimates shall be set at realistic and attainable levels and shall be monitored and reported to Council at least quarterly.
2. The City will conduct an annual review of specific programs and services which have been identified as potential opportunities for user fees and for which user fees are charged. Where appropriate, user fees will be set at a level sufficient to recover the full costs of the program or service.
3. Regulatory fees shall be set at a level that strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) of providing the service, unless statutory restrictions limit the fee amount.
4. Non-regulatory fees are charged for a wide variety of services with the primary purpose for non-regulatory fees being to: 1) influence the use of the service and 2) increase equity.
5. Non-regulatory user fees shall be set at a level that is reflective of the marketplace and strives to recover full costs (direct and indirect costs, such as depreciation associated with capital assets) except when:
    a. Free or subsidized services provides a significant public benefit;
    b. The City has determined that it can achieve community-wide public benefits;
    c. Full cost recovery would result in reduced use of the service or limit access to intended users thereby not achieving community-wide public benefits;
    d. The cost of collecting the user fees would be excessively high;
    e. Ensuring the users pay the fees would require extreme measures.

E. Capital Improvement Policy

1. The City will update and readopt annually a five-year capital improvement program which details each capital project and funding source.
2. The capital improvements plan should be tied to the City's comprehensive growth plan, "City Plan 2025," as well as to the City's other adopted Master Plans, to ensure that the capital items requested meet the future growth needs and long-term vision for the City.
3. The City shall appropriate all funds for Capital projects with a Capital Projects Ordinance in accordance with State statutes.
4. Operating expenses for all capital projects will be estimated and accounted for in the Capital Improvements Program and incorporated into the annual operating budget.
5. Capital expenditures included in the CIP as a project will cost at least $50,000 and have a useful life of at least five years. Equipment purchases are considered operating expenses and will not be included in the CIP.

6. Capital facilities to be financed with bond-indebtedness must adhere to the debt policies of the City including maintenance of adopted debt ratios.
7. Items with life of at least five years and cost of at least $50,000 acquired under capital lease agreements will be considered as capital improvements, and lease arrangements shall be incorporated into debt policy below.
8. Whenever practicable, co-funding arrangements for capital improvements shall be sought from sources including county, state and federal governments; philanthropic institutions; corporate partners; other donors; and community partners. Presentations of five-year CIP plans to Council shall incorporate targeted co-funding amounts and strategies.

F. Accounting Policy

1. The City will establish and maintain the accounting systems according to North Carolina Local Budget and Fiscal Control Act, Generally Accepted Accounting Principles (GAAP) and standards established by the Governmental Accounting Standards Board (GASB).
2. Full disclosure will be provided in the financial statements and bond representations.
3. Financial systems will be maintained to monitor expenditures and revenues on a monthly basis.
4. All revenue collections will be consolidated under the Director of Finance and be reviewed through an internal audit process at least annually.
5. The City's Fiscal Procedures Manual will be maintained as a central reference point and handbook for all activities which have a fiscal impact within the City and will serve as the City's authoritative source for fiscal procedures.

G. Audit Policy

1. An annual audit will be performed by an independent public firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement, if required. The City will prepare a Comprehensive Annual Financial Report that will be submitted to the Local Government Commission each year according to the commission's stated deadlines.
2. When obtaining the services of independent auditors, the City of Asheville shall enter into multiyear agreements of not more than five years in duration through a series of single-year contracts as consistent with applicable legal requirements. It is the City of Asheville's policy that the independent auditor be replaced at the end of the five-year engagement to enhance auditor independence unless lack of competition among audit firms fully qualified to perform public-sector audits make mandatory rotation counterproductive. The principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.

H. Water Utility Policy

1. **Setting Water Rates & Charges:** Charges for water users shall be set at a level to provide sufficient revenues to cover all annual operating and debt service expenditures, to accumulate funds for the acquisition and replacement of capital equipment and facilities, and to finance the

long-term Capital Improvement Plan. As the Water Fund relies solely on user fees, the City of Asheville will continue to be guided by cost-of-service principles with regard to rates, fees, and charges, and will operate the water system at the lowest rates consistent with the obligation to provide proper and efficient services, now and in the future. Rate increases will be evaluated annually and implemented with a maximum level of predictability, consistency and affordability.

2. **Debt Service Coverage:** Utility debt service coverage ratios shall be maintained at a level of 1.25 to 1.5 times coverage or greater (as measured by net revenues, excluding capital contributions, available for debt service divided by total debt service requirements).
3. **Debt to Net Plant:** Utility system debt shall not exceed 70%-75% (as measured by total long-term debt divided by total net assets).
4. **Cash Financing of Capital:** Annual revenues and cash reserves shall provide not less than 30% of CIP funding.
5. **Service Affordability:** The most commonly used and most cited measure of water service affordability of "percent MHI" – that is, calculating what a year's worth of water bills for an average level of consumption (e.g. 5000 gallons/month) is compared to the median household income (MHI) in the community served by the utility. This indicator is easy to calculate by simply using the calculated bill amount and the U.S. Census Bureau's median household income date from their latest 5-year American Community Survey estimates. The City of Asheville's percent MHI, the average annual residential bill divided by real median household income, shall be ≤1.5%.

I. Internal Service Fund Policy

1. Health Fund
   a. Health Claims Budget and Rate Setting

      Health claims shall be budgeted to adequately fund expenses including trend, administrative costs, stop-loss premiums and risk corridor. Expected claims expenses shall be projected based on annual actual mature claims experience adjusted for trend, enrollment and plan design and network changes.

      Trend is defined as year to year medical inflation influenced by utilization, advances in medical technology and increasing cost of medical services.

      Risk corridor, calculated at 5% of expected claims expense, is defined as the difference between expected claims and the aggregate potential liability on group claims to be funded from current rate resources as opposed to reserves. The amount over the risk corridor represents the risk the employer is accepting in the self-funded plan which, if claims exceeded the aggregate potential liability funded from current rate resources, would be paid from reserves.

   b. Health Fund Reserve Requirement

The health fund shall maintain reserves designed to offset normal variances in claims cost from year to year, unforeseen catastrophic claims beyond any reinsurance, larger than expected medical inflation trends, incurred but not reported claims liability and the impact of future health care legislative mandates.

The health reserve amount shall be calculated as the sum of the following:

1. 100% of the incurred but not reported claims liability with the lag factor based on the prior 12-month average, and
2. 100% of reported and not yet paid claims computed as two weeks of annual claims benefit costs, and
3. 30% of the aggregate of 1 and 2 above

Should the health fund fail to meet the required reserve level, the amount needed to restore the fund to the required reserve level shall be funded in subsequent years' rate structure and recovered over a period of not more than three years.

Should the health fund exceed the required reserve level, the amount in excess of the required reserve level shall be credited to the subsequent year's employer health care contribution.

J. <u>Debt Management</u>

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected life of the project.
2. The general bonded indebtedness of the City of Asheville will not exceed 8% of the assessed valuation of the taxable property of the City.
3. Total debt service on tax-supported debt of the City will not exceed 15% of total general operating revenue.
4. Payout of aggregate principal outstanding shall be no less than 50% repaid within 10 years.
5. The City will maintain its financial condition so as to maintain a minimum AA bond rating.
6. The City's Water Resources Utility will maintain its financial condition so as to maintain a AA bond rating.
7. The City's debt policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.