



## **City of Monmouth**

### **Council Fiscal Policies**



**Policy:**

The City Council's Fiscal Policies serve to:

- ❖ protect the policy making ability of the City Council by ensuring that important policy decisions are not controlled by financial problems or emergencies.
- ❖ enhance the City Council's decision-making ability by providing timely and accurate information on revenue and operating costs.
- ❖ assist sound management of the City by providing accurate and timely information to the City Council and public on the City's financial condition.
- ❖ provide sound principles, reports and analyses to guide the important decisions of the City Council and of management which have significant fiscal impact.
- ❖ set forth operational principles which minimize the cost of government and financial risk, and safeguard the City's assets.
- ❖ employ revenue policies which prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
- ❖ provide adequate resources to operate and maintain essential public services, facilities, utilities, infrastructure and capital equipment.
- ❖ protect and enhance the City's credit rating and prevent default on any debt issue of the City.
- ❖ ensure the legal use of all City funds through efficient and sound systems of administrative policies, financial security and internal controls.

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**Purpose:**

To underscore the responsibility of the City of Monmouth to its citizens for the long-term care of public funds and wise management of municipal finances while providing adequate funding for the services desired to achieve a sense of well-being and safety by the public and maintaining the community's public facilities and infrastructure to enhance the long-term livability and economic vitality of Monmouth.

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**Scope:**

Municipal financial operations have a wide variety of oversight or standard setting agencies, including multiple departments within both State and Federal governments, the Securities and Exchange Commission (SEC), and the Governmental Accounting Standards Board (GASB). The City of Monmouth manages public funds within all of these oversight agency requirements. These fiscal management policies are designed to ensure the

fiscal stability of the City of Monmouth municipal corporation, provide guidance in fiscal management when oversight agencies are otherwise silent or to reiterate best practices that may be codified by another entity. This document is not meant to be a detailed authority source. Other resources are available to supplement this material such as the City's employee handbook and bargaining unit agreements, Oregon Revised Statutes (ORS), Oregon Budget Law, Generally Accepted Accounting Principles (GAAP), and GASB pronouncements. This policy document is available on the City's website and is distributed to the Mayor, Councilors, City Manager and Directors. Anyone who has responsibility for management of the financial affairs of a department should reference this document. The Finance Director may be contacted for guidance where this policy is not explicit.

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**Guidelines:**

**Revenue Policy**

- A. The City will take advantage of every revenue generating authority provided by Oregon Statutes, including but not limited to State Shared Revenues, Transient Room Taxes, Franchise Fees, User Fees, and System Development Charges.
- B. The City will maximize the use of service user charges between funds for services that can be identified and where costs are related to the level of service provided. Examples of such charges are In-Lieu of Ad Valorem Taxes and the General Fund Support Transfer charge. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly.
- C. Charges for providing utility services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the City's enterprise funds, including operating contingency and reserve requirements. These enterprise funds will totally support all costs, and rates will be reviewed and adjusted as needed to account for major changes in consumption, capital improvements, and cost increases.
- D. The City shall pursue an aggressive policy of collecting delinquent accounts. When necessary, discontinuing service, recording utility liens, and utilizing other methods of collection including the employment of a collections agency shall be used.
- E. System development charges shall be established to fund the costs of improvements to service additional increments to growth, such as street, storm water, water, sewer, and park facilities. These revenues are legally restricted by a formal plan.
- F. The City shall maintain a current schedule of administrative fees, showing when the fees were last reviewed and/or recalculated.

**Expenditure Policy**

- A. The City will provide employee compensation that is competitive with comparable public jurisdictions within the relative recruitment area.
- B. Estimated wage increases and changes in employee benefits will be included in the proposed budget under Personnel Services.
- C. The City is committed to maintaining and improving the productivity of its staff by providing a proper working environment, adequate equipment and supplies, and appropriate training and supervision.
- D. The operation of City utilities and streets and city property maintenance must have adequate funds to procure needed supplies and parts.
- E. Purchasing guidelines are provided in the City's "Public Contracting Regulations" located in

Chapter 3.2 of the Monmouth City Code.

- F. Department Directors are responsible to manage department expenditures within budget appropriations. Expenditure invoices or statements require approval by the Department Director or Supervisor.
- G. Payment Methods/Processes:
  - 1. Vendor Checks: Approved invoices are routed to the Finance Department for payment. The Accounts Payable Technician verifies invoice coding and authorization, enters the invoices into the finance software, and prints the checks. The Finance Operations Manager reviews all documentation and verifies check sequence prior to issuance of the facsimile signed checks. Payments by ACH or Wire are set up and approved by the Finance Director, and reviewed by the Finance Operations Manager through the monthly bank reconciliation process.
  - 2. Company Credit Card Payments: Department Directors and select staff members have been issued company credit cards for use in facilitating City purchases where a credit card payment is required or more efficient. Statements are reviewed monthly, with all receipts accounted for by the card user. Documentation is submitted to the Account Technician, who ensures it has been reviewed/initialed by the card holder as well as either the Finance Director or City Manager, prior to submitting the payment.
  - 3. Payroll: Time sheets are submitted by all Departments to the Finance Operations Manager who processes the wages, benefits and deductions each month end. Payment to personnel is primarily via direct deposit. The Direct Deposit file is submitted to the bank by the Finance Operations Manager, with any manual checks signed by the Finance Director or other City signatory, upon review of the payroll register.
  - 4. One signature is required for both payroll and vendor checks – the Finance Director, City Manager and Police Chief are authorized signers for the City.
- H. Capital outlay expenses:
  - 1. The City will provide for adequate maintenance of equipment and capital assets and will fund reserves to ensure that monies are available as needed to replace City vehicles, equipment and facilities.
  - 2. The City will determine and use the most appropriate method of financing (debt or equity) for all capital projects and purchases.
  - 3. Special funds dedicated for capital improvements will be segregated in the accounting system and used only for the intended capital purposes.
  - 4. The City will maintain a five-year Capital Improvement Plan (CIP) as a financial planning tool to prioritize outlay for capital projects and purchases with limited resources.

### **Operating Budgetary Policies**

- A. To maintain fund integrity, the City will budget and manage each fund as an independent entity in accordance with applicable statutes and with generally accepted accounting principles.
- B. A Budget Committee will be appointed in conformance with the City Charter and State statutes. The Budget Committee's chief purpose is to review the City Manager's proposed budget and recommend a budget and maximum tax levy for the City Council to adopt. The Budget Committee may consider and develop recommendations on other financial issues as delegated by the City Council.
- C. The City budget will support City Council goals and priorities and the long-range needs of the community.
- D. Revenues will be estimated by an objective, analytical process. Because most revenues are

sensitive to conditions outside the City's control, estimates will be conservative.

- E. Ongoing expenses should be covered by ongoing revenues.
- F. While the City budget is a one-year document, a multi-year approach will be used in its development so future implications of current fiscal decisions can be considered.
- G. The City's Capital Improvement Plan will be updated annually and included as part of the City's budgeting process.

### **Accounting Policy**

- A. The City shall establish and maintain its accounting systems according to GAAP and Oregon Budget Law. The City will issue an Annual Financial Report (audit report) each fiscal year.
- B. An annual audit shall be performed by an independent certified public accounting firm, which will issue an official opinion on the annual financial statements, and if necessary, issue letters to management and those who govern identifying areas needing improvement.
- C. Full disclosure of the City's financial condition shall be provided in the financial statements and bond representations.
- D. Monthly summary Budget-to-Actual reports as well as detail revenue and expense reports shall be prepared and distributed to Department Directors and other appropriate City staff in a timely manner. They will also be made available for public inspection upon request.
- E. Quarterly Budget-to-Actual reports shall be prepared and distributed to the City Council, City Manager, and other appropriate City staff in a timely manner. These reports will be made available for public inspection on the City's website.
- F. Any required adjustments to the annual budget will be made in accord with Oregon Budget Law and will require the approval of the City Council by resolution.
- G. Systems will provide monthly information about cash position and investment performance, and this information will be provided in the Quarterly reports to City Council.

### **Debt Policy**

- A. Long-term financing is used only for financing capital improvements, facilities, and equipment. Further, it's used only after considering alternative funding sources such as fund reserves, project revenues, Federal and State grants, and special assessments.
- B. The City shall incur debt in a way that minimizes costs and maximizes credit worthiness, so future borrowing costs are minimized and access to the credit market is preserved.
- C. Capital projects financed through the issuance of bonds will be financed for a period not to exceed the useful life of the assets financed.
- D. Long-term financing will not be used to finance current operating expenditures.
- E. Bond post-issuance compliance policy is covered in more detail in a separately adopted document last updated in July 2015.

### **Stabilization Policy**

- A. In an effort to ~~the~~ maximize and stabilize service levels on an ongoing basis, the following Fund Balance policy will apply to the City's funds that include ongoing personnel services (currently the General, Street, Building, and Enterprise Funds):
  - 1. The budgeted ending fund balance of all City operating funds (as defined above) shall be at least 25% of that fund's total budgeted operating expenses except the General Fund which shall be at least 15% of total General Fund operating expenses.
  - 2. Further defining the calculation above, ending fund balances equal the sum of the contingency appropriation and the reserves or unappropriated ending fund balance.

3. Total Operating expenditures are defined as the sum of the appropriations for Personnel Services, Materials & Services, Debt Service, and Transfers.
4. Funding levels of these funds will be reviewed at least annually to maximize service levels on an ongoing basis and avoid significant reductions during periods of economic stagnation.
5. Justifications shall be provided during the budgeting process for budgeted ending fund balances below or significantly above the minimum percentages indicated above.

### **Fund Balance Designation Policy**

- A. In February 2009, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement created the hierarchy of fund balance classifications which were based primarily on the extent to which governments are bound by the constraints placed on resources reported in those funds. These classifications are shown below and apply to the City's General, Special Revenue, Capital Projects, and Debt Service funds.
  1. Nonspendable - Represents assets that are nonliquid (such as inventory) or legally or contractually required to be maintained intact (such as the principal amount of an endowment).
  2. Restricted – When constraints are placed on the use of resources for a specific purpose by enabling legislation (legally enforceable), external parties or constitutional provisions.
  3. Committed – When constraints are created by the governing body on how it will spend its resources. These are enacted via legislation, resolution or ordinance and are in place as of the end of the fiscal period. The constraints remain binding until formally rescinded or changed by the same method the constraints were created. The difference between Restricted and Committed is that under Committed, the governing body can remove constraints it has imposed upon itself.
  4. Assigned – Designation of amounts by either the governing body or staff (if authorized) to be used for a specific purpose narrower than the purpose of the fund.
  5. Unassigned – The excess of total ending fund balance over nonspendable, restricted, committed and assigned amounts. Only the General Fund has an unassigned category since money remaining in any other fund is automatically designated or assigned to the purposes of that fund.
- B. Under this statement, Special Revenue Funds must either be classified as restricted or committed. When not specified by legislation or external parties, the City Council will provide direction on the intended use of Special Revenue fund resources by resolution.

### **Investment Policy**

- A. City of Monmouth funds will be invested in compliance with the provisions of, but not necessarily limited to all current and future applicable Oregon Statutes. Investments of any tax-exempt borrowing proceeds and any related debt service funds will comply with the arbitrage restrictions in all applicable Internal Revenue Codes.
- B. The investment objectives for the City of Monmouth are:
  1. Preservation of capital and the protection of principal.
  2. Maintenance of sufficient liquidity to meet operating requirements.
  3. Avoidance of imprudent credit, market, or speculative risk.
  4. Attainment of a market rate of return throughout all economic and fiscal cycles.

- C. The City has a separately adopted Investment Policy document which should be referenced for additional investment policy information.

### **Capital Asset Capitalization Policy**

- A. Capital assets are valued at their historical cost. In the absence of historical cost information, the asset's estimated historical cost will be assigned and used. Contributed capital is reported at fair market value or cost on the date the asset is contributed.
- B. The historical cost of a capital asset includes the following:
- Cost of the asset
  - Ancillary charges necessary to place the asset in its intended location (i.e. freight charges).
  - Ancillary charges necessary to place the asset in its intended condition for use (i.e. installation and site preparation charges).
  - Capitalized interest.
- C. The City will capitalize all individual assets with a cost over \$5,000 and an estimated useful life of 3 years or more.
- D. Capitalized assets are depreciated using the straight-line method in the Annual Financial Report. The City maintains a depreciation schedule for the General Fund, Street Fund, MINET Fund, and all Proprietary Funds.
- E. The following guidelines are used in setting estimated lives for asset reporting:
- Infrastructure                      20 – 50 years
  - Buildings                              40 years
  - Equipment                            6 – 12 years
  - Vehicles                                3 – 20 years
- F. Capital construction projects include new facilities, remodeling or enlargement of existing facilities, expansion or capacity improvements to utility systems and major system improvements. Maintenance projects, such as the overlay of a street, painting a building or replacing a broken pipe, are not considered capital improvements and would be expensed as repair and maintenance.

### **Risk Management Policy**

- A. Program: The City maintains a Risk Management program designed to decrease exposure to risk. At a minimum, the program includes:
1. a safety program that emphasizes reducing risks through training and safe work habits including an employee award event to incentivize staff to work safely;
  2. an annual examination of the City's insurance program to evaluate how much risk the City should assume; and
  3. other risk management activities, including review of all City contracts with respect to indemnification and insurance provisions.
- B. Annual Report: The Finance Director and/or the City's insurer shall annually prepare a Comprehensive Risk Management Report, including but not limited to:
1. a summary of the past year's risk management claims;
  2. an identification of current and potential liability risks or activities potentially impacting the City's finances;
  3. specific strategies to address the risks identified; and
  4. a summary of the past year's safety and violence in the workplace activities/trainings.

## **Definitions:**

*Accrual Basis of Accounting* - Revenue recognition occurs when earned and expenditures are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

*Annual Financial Report* - Prepared at the close of each fiscal year and published no later than December 31 of each year to show the actual audited condition of the City's funds, and serves as the official public record of the City's financial status and activities.

*Appropriation* - Legal authorization granted by City Council to make expenditures and incur obligations.

*Assessments* - An amount levied against a property for improvements specifically benefiting that property.

*Balanced Budget* - A budget in which the resources are equal to or greater than the requirements in each/every fund.

*Benefits* - Employee benefits mandated by state and federal law, union contracts, and/or Council policy. The most common forms of fringe benefits are pension plans, health and life insurance, vacation, sick and holiday leave, deferred compensation, automobile allowances, disability insurance, and educational and incentive pay.

*Bonds* - A written promise to pay a sum of money (principal or face value) at a future date (maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used to finance long-term capital improvements.

*Budget* - A plan of financial operation, embodying an estimate of proposed expenditures for a given period (typically a fiscal year) and the proposed means of financing them (revenue estimates). Upon approval by the City Council, the budget appropriation resolution is the legal basis for expenditures in the budget year.

*Capital Budget* - A plan of proposed capital expenditures and the means of financing them. The capital budget is usually enacted as part of the complete annual budget which includes both operating and capital outlays. The capital budget should be based on a capital improvement program.

*Capital Improvement Program (CIP)* - A plan for capital expenditures to be incurred each year over a fixed period of several future years, setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

*Capital Outlay* - Expenditures for operating equipment drawn from the operating budget. Capital outlay items include equipment that will last longer than three years and having an initial cost above \$5,000. Capital outlay does not include capital budget expenditures for construction of infrastructure such as streets, buildings, or bridges.

*Contingencies* - An appropriation of funds to cover unforeseen events which occur during the budget year. City Council must authorize the use of any contingency appropriations (not to be confused with Reserves).

*Council Goals* - Broad or specific goals established by the City Council at the outset of each two-year term to guide the organization in its activities and focus.

*Debt Service* - The amount of principal and interest that a local government must pay each year on net, direct-bonded, long-term debt plus the interest it must pay on direct short-term debt.

*Deficit –*

- (1) The excess of an entity's liabilities over its assets (see Fund Balance).
- (2) The excess of expenditures or expenses over revenues during a single accounting period.

*Direct Cost* - A cost directly related to producing and/or providing related services. Direct costs consist chiefly of the identifiable expenses such as materials and supplies used to provide a service, the wages and salaries of personnel working to provide a service, and facility costs. These expenses would not exist without the program or service.

*Equipment Replacement Schedule* - A schedule of annual purchases to replace major equipment and vehicles that have met or exceeded their useful life to the City.

*Expenditure* - Total amount incurred if accounts are kept on an accrual basis; total amount paid if accounts are kept on a cash basis.

*Financial Audit* - A systematic examination of resource utilization concluding in a written report. It is a test of management's internal accounting controls and is intended to:

- Ascertain whether financial statements fairly present financial position and results of operations,
- Test whether transactions have been legally performed,
- Identify areas for possible improvements in accounting practices and procedures,
- Ascertain whether transactions have been recorded accurately and consistently, and
- Ascertain the stewardship of officials responsible for governmental resources.

*Financial Condition* - The City's ability to pay all costs of doing business and to provide services at the level and quality that are required for the health, safety, and welfare of the community, and that its citizens desire.

*Fiscal Policies* - Administrative and Council policies established to govern the City's financial operations.

*Fixed or Mandated Costs* - These include expenditures to which the government is legally committed (such as debt service and pension benefits), as well as expenditures imposed by higher levels of government (such as for wastewater treatment facilities).

*Fund* - An independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or resources together with all related liabilities, obligations, reserves, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives.

*Fund Balance* - The difference between fund assets and fund liabilities of governmental and similar trust funds. The equivalent terminology within proprietary funds is Retained Earnings. (When the term "Fund Balance" is used in reference to Proprietary Funds, it is normally referring to the estimated budgetary-basis amount available for appropriations for budgeting purposes.) The City of Monmouth will use the GASB definitions of Fund Balance for its Financial Statements and for all other financial reporting. For all financial planning purposes, the term Budgetary Fund Balance will be used and will include any portion of the fund balance that is available for appropriation. The portion of the fund balance that is not available for appropriation will be identified as a Reserved Balance. The GASB has defined fund balance segments as follows:

- A. Non-spendable: Amounts inherently non-spendable or that must remain intact according to legal or contractual restrictions.
- B. Restricted: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government,

through constitutional provisions, or by enabling legislation.

- C. Committed: Amounts constrained by the City Council via a resolution or ordinance.
- D. Assigned: Amounts the City intends to use for a specific purpose. The authority to assign resources lies with the City's Finance Director.
- E. Unassigned: Amounts that are not categorized into one of the aforementioned classifications; these resources may be used for anything. Only the General Fund should show a positive unassigned fund balance. For other funds, a negative unassigned balance should be reported if more resources are used than are available in the fund.

*General Obligation Bonds* - When a government pledges its full faith and credit to the repayment of the bonds it issues, then those bonds are general obligation (GO) bonds. Sometimes the term is also used to refer to bonds which are to be repaid from taxes and other general revenues.

*Government Funds* - The funds below subscribe to the modified accrual basis of accounting and include the following types of funds that City of Monmouth utilizes:

- A. *General Fund* - The major source of revenue for this fund is taxes. There are no restrictions as to the purposes in which the revenues in this fund can be used
- B. *Special Revenue Funds* - The resources received by these funds are limited to a defined use, such as the Street Fund.
- C. *Debt Service Funds* - Funds used for paying principal and interest on debt in non-enterprise funds.
- D. *Capital Project Funds* - Resources from these funds are used for purchase or construction of long-term fixed assets.

*Grant* - A contribution of assets by one entity to another. Grants are generally designated for a specific expenditure.

*Indirect Cost* - A cost incurred in the production and/or provision of related services that usually cannot be directly associated with any one particular good or service. Indirect costs encompass overhead including administrative costs such as wages of supervisory and administrative personnel, occupancy and maintenance of buildings, and utility costs. These costs would exist without the specific program or service.

*Investment* - Cash balances, securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals, or base payments.

*Liabilities* - The sum of all amounts that are owed at the end of the fiscal year, including all accounts payable, accrued liabilities, and debt.

*Long-Term Debt* - Present obligations that are not payable within a year. Bonds payable, long-term notes payable, and lease obligations are examples of long-term debt.

*Modified Accrual Basis of Accounting* - The accrual basis of accounting adapted to the governmental fund type under which revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are generally recognized when the related fund liability is incurred.

*One-Time Revenue* - Revenue that cannot reasonably be expected to continue, such as a single-purpose federal grant, an interfund transfer, or use of a reserve. Also referred to as a non-recurring revenue.

*Operating Budget* - The appropriated budget supporting current operations. Most operations are found in the General, Special Revenue, Enterprise, and Internal Service Funds.

*Personnel Services* - A category for all wages, fringe benefits, and miscellaneous costs associated with employee expenditures.

*Proprietary Funds* - These funds subscribe to an accrual basis of accounting and include the following types of funds:

- A. *Enterprise Funds* - Account for distinct, self-sustaining activities that derive the major portion of their revenue from user fees.
- B. *Internal Service Funds* - Account for goods and/or services provided to other funds or departments within the organization. Examples include the Vehicle and Equipment Maintenance and Data Processing Funds.

*Reserved Balance* - For budgetary purposes, this is the amount of fund balance that is not available for appropriation except for the uses defined for the specific reserve.

*Restricted Revenue* - Legally earmarked for a specific use, as may be required by state law, bond covenants, or grant requirements. For example, many states, including Oregon, require that gas tax revenues be used only for street maintenance or street construction (and bicycle/footpath spending).

*Revenue* - Monies received or anticipated by a local government from either tax or non-tax sources.

*System Development Charge (SDC)* - A charge levied on new construction to help pay for additional expenses created by growth or to compensate for already existing capacity in key facilities and systems already in place which support the new development.

*Transfer* - Amounts distributed from one fund to finance activities in another fund. Shown as an expenditure in the originating fund and a revenue in the receiving fund.

**Review/Update:**

The Finance Director will prepare this Council Fiscal Policy review every year for City Council approval via resolution.

Rev #	Name	Change Date	Character of Change
0	M.Dunmire	October 2010	Adopted
1	M.Dunmire	November 2010	Modified Expenditure language around employee compensation per Council request.
2	M.Dunmire	June 2011	Updated for inclusion of GASB 54 Fund Balance designation language
3	M.Dunmire	April 2014	Changed Stabilization Policy calculation to be on the basis of operating expenses
4	J. Chenard	June 2018	Provide more structured purpose/overview introduction; updated municipal code reference for purchasing policy; adds definitions and review policy; adds debt compliance policy reference; adds Risk Mgmt policy; updates "Fixed Asset" nomenclature to currently used terms and expands on the purchasing policy and capital improvement project language/policy.