

FISCAL PERFORMANCE POLICIES

The Fiscal Performance Policies represent an effort to establish written policies to guide the City's financial management and decision-making practices. They are designed to help contain the costs of city government, as well as to strengthen the financial capacity of the City to provide and maintain effective services and programs.

While some of the policy statements are specific and may limit certain types of financial practices, the policy statements are not intended to restrict the ability and responsibility of the Board of Directors to manage emergency or unusual service delivery needs above or beyond the limitation established by the Fiscal Performance Policies.

Additional Water & Sewer Utility Financial Policies are maintained in a separate document and should be considered in addition to the City's overall fiscal performance policies. Utilities fiscal policies will supersede the City's general fiscal policies in the application of Water and Sewer Utility budgeting and financial management. (*pending*)

REVENUE POLICIES

1. The City will strive to maintain a diversified and stable revenue base that will equitably distribute the burden of supporting City services and will protect the City from short-term fluctuations in any one revenue source.
2. The City will estimate revenues on an objective and reasonable basis. Revenues will be projected on a two year basis with an annual update. This projection will be used for operating budget preparation.
3. The City will use one-time or special purpose revenues for capital expenditures or for expenditures required by the revenue, and not to subsidize recurring personnel, or operation and maintenance costs.
4. The City will establish and periodically review all user charges, licenses and fees at a level related to the cost of providing the services. Such charges, licenses and fees will be reviewed and established where possible so that those who directly benefit from a service principally pay for it.
5. The City will set and maintain water, sewer and sanitation rates at levels that support the total direct and indirect costs of the enterprise, including debt service and capital maintenance.
6. The City will annually review, and revise where necessary, its indirect cost allocation formula on an objective and reasonable basis.

7. The City will maintain timely collection systems and implement necessary enforcement strategies to collect revenues from available sources.
8. The City will give priority to those revenue alternatives which involve the least collection and administrative cost, per dollar raised, to the City government.
9. The City will seek a balanced revenue base through active support of area economic development, diversification, and retention efforts.

OPERATING EXPENDITURE/EXPENSE POLICIES

1. The City Administrator will propose, and the Board of Directors will adopt, a balanced operating budget in which budgeted expenditure/expenses don't exceed reasonably estimated revenues for the fiscal year. Basic and essential services provided by the City will receive first priority for funding. The City will utilize unallocated fund balance to balance the annual budget only in times of emergency or fiscal and economic hardship. The monies from the fund balance can only be allocated by Board of Directors approval. Additional funding will be assigned according to City-wide goals established by the Board of Directors and Comprehensive Plan policies.
2. The City will estimate expenditures/expenses on an objective and reasonable basis. Operating expenditures/expenses will be projected on a two year basis with an annual update.
3. The City will establish service measurements for all program areas, when feasible. The service measures will reflect the demand, workload capability and projected outcomes for the program to accomplish its goals and objectives.
4. Annual budgets shall be legally adopted for the four operating funds- General Fund, Street Maintenance Fund, Water and Sewer Operating Fund and the Sanitation Operating Fund. Projects shall be approved for major capital projects.
5. The City will provide access to appropriate retirement plans and Other Post Employment Benefits (OPEB) for its employees. The City will make contributions for eligible employees at the level defined for the respective retirement plans. The City will make contributions to the OPEB trust plan when funds are available.
6. The City will encourage delivery of services by other public and private organizations whenever and wherever greater efficiency, effectiveness and service can be expected, as well as to develop and internally use technology and productivity advancements that will help reduce or avoid increasing personnel costs. The intent is to control personnel costs as a proportion of the total

budget, to more productively and creatively use available resources, and to avoid duplication of effort and resources.

7. The City will maintain a budgetary control system to help it adhere to the adopted budget, and will prepare and maintain a system of regular fiscal reports comparing actual revenues and expenditures/expenses to budgeted amounts.
8. All budgets shall be adopted on a basis consistent with generally accepted accounting principles (GAAP) except for depreciation expense in the applicable funds.
9. All appropriations lapse at yearend. Any encumbrance at yearend shall be re-appropriated by the Board of Directors in the subsequent year.
10. The legal level of budgetary control is the departmental program level. Operational budgetary control is maintained at the program level. All departments will be given the opportunity to participate in the budget process.

CAPITAL IMPROVEMENT POLICIES

1. The City will prepare annually and update a five year capital improvements program (CIP) which will provide for the orderly maintenance, replacement, and expansion of capital assets.
2. The CIP will identify long-range capital projects and capital improvements of all types which will be coordinated with the annual operating budget to maintain full utilization of available revenue sources.
3. The CIP will reflect for each project the likely source of funding, the priority ranking of each project and attempt to quantify the project's impact to future operating expenditures/expenses.
4. The City will determine and follow the most cost-effective financing method for all capital projects. The City will pursue federal, state and other funding to assist in financing capital projects and improvements.
5. All equipment, projects and improvements, other than infrastructure, with a value equal to or greater than \$5,000 per unit and an estimated life greater than or equal to 3 years will be capitalized for financial reporting purposes. Infrastructure assets are those that are provided by the street Sales Tax Fund and include streets, bridges and drainage projects. All land and rights-of-way are capitalized for infrastructure projects. The project cost is capitalized for projects greater than or equal to \$250,000 and are grouped by project year. Individual

infrastructure projects are capitalized separately if the project totals greater than or equal to \$5.9 million.

6. Capital projects and improvements will be constructed to:
 - a. Protect or improve the City's quality of life.
 - b. Protect or enhance the community's economic vitality.
 - c. Support and service new development.

DEBT POLICIES

1. The City will issue debt to finance or refinance capital improvements and long-term fixed assets or other costs directly associated with financing a project which have been determined to be beneficial to a significant proportion of citizens in Fort Smith and for which repayment sources have been identified. Debt issuance shall be used only after considering alternative funding sources such as project revenues, federal and state grants and special assessments.
2. The scheduled maturity of bond issues should not exceed the expected useful life of the capital projects or improvements financed.
3. The City will consider refunding outstanding bonds if one or more of the following conditions exist:
 - a. Present value savings are at least 3% with certain exceptions, of the par amount of the refunding bonds.
 - b. The bonds to be refunded have restrictive or outdated covenants.
 - c. Restructuring debt is deemed to be desirable.
4. The City will seek credit enhancements, such as bond insurance or letters of credit, when necessary for cost-effectiveness.
5. The City will monitor compliance with bond covenants, adhere to Federal arbitrage regulations, and abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c 2-12 concerning primary and secondary market disclosure. The City will also monitor bond issues by adhering to its Post-Issuance Compliance Manual required by the IRS. This manual includes the requirements for monitoring bond offering transactions by the underwriter.
6. The City will encourage and maintain communications with financial bond rating agencies and continue to strive for improvements in the City's bond rating.
7. The City will require that the total annual payments for debt service not exceed 35% of total operating revenues of the applicable fund.

8. The City will evaluate the benefits of conducting financings on a competitive or negotiated basis. Negotiated financings may be used where market volatility or the use of an unusual or complex financing or security structure is a concern with regard to marketability.
9. The City will coordinate its debt issuances with other local government agencies in an effort to review overlapping debt in the community.

RESERVE POLICIES

1. The City will maintain an operating contingency reserve to:
 - a. Provide for temporary funding of unforeseen needs of an emergency or nonrecurring nature.
 - b. Permit orderly budgetary adjustments when revenues are lost through the action of other governmental bodies.
 - c. Serve as local match for public or private grants.
 - d. Meet unexpected small increases in service delivery costs.
 - e. Maintain an adequate cash flow.
2. The goal for the contingency reserve will be ~~maintained at not less than~~ fifteen percent (15%) of estimated operating expenditures/expenses. The Water / Sewer Fund's contingency reserve goal will be twenty percent (20%) of estimated operating expenditures/expenses. Prior approval of the Board of Directors shall be required before spending contingency funds.
3. If the contingency reserve balance falls below the fifteen percent (15%) level (20% for Water/Sewer Fund) for a current year budget, then the following steps will be taken by the appropriate departments:
 - a. If the contingency reserve is between 10% and 14.99%, then operating and capital reductions will be required.
 - b. If the contingency reserve is between 5% and 10%, then personnel reductions, including services will be implemented.
 - c. If the contingency reserve is less than 5%, then personnel, operating and capital reductions will take place. Service levels may be significantly reduced if this scenario occurs.
4. If the contingency reserve balance exceeds 20% (25% in Water / Sewer Fund), the City may consider utilizing the funds above this amount for one-time capital projects or other non-recurring expenditures that support City goals or Comprehensive Plan policies.
5. The City will develop an equipment reserve fund, and will appropriate funds to it annually to provide for the timely replacement of equipment. The reserve will be maintained in an amount adequate to finance the replacement of equipment.

The replacement of equipment will be based upon the adopted equipment replacement schedule. The schedule will be updated annually.

INVESTMENT AND CASH MANGEMENT POLICIES

1. The City's cash management system will be designed to accurately monitor and forecast revenues and expenditures/expenses in order to invest funds to the fullest extent possible. All cash and investments, other than accounts required by bond covenants, will be maintained in a single cash and investment pool. Interest revenue will be allocated to each investing fund consistent with fund ownership.
2. The objectives of the City's investment and cash management program will be to:
 - a. safely invest City funds to the fullest extent possible,
 - b. maintain sufficient liquidity to meet cash-flow needs, and
 - c. attain the maximum yield possible consistent with the other two objectives.
3. The City will limit its investments to the safest type of securities permitted by Arkansas statutes. These shall include those which:
 - a. have insurance on the principal guaranteed by the Federal Deposit Insurance Corporation, or
 - b. have security on the principal in the form of bonds or other interest bearing securities of the U.S. Government or its agencies, or
 - c. have security on the principal in the form of bonds or other interest bearing securities of the State of Arkansas, or its agencies or political subdivisions as defined in Arkansas statutes.
4. The City's investments will be diversified by type of investment, institution and maturity date to protect against changes in the market at a given time regarding any particular type of investment. Direct obligations of the U.S. Government shall be purchased from the Federal Reserve Bank.
5. Purchase and sale of securities will be made on the basis of competitive offers and bids in order to obtain the highest available rates. In order to keep administrative costs as low as possible, investments of less than \$100,000 may be made through a current depository bank. For investments exceeding \$100,000, institutions shall be contacted by telephone and given the opportunity to provide an interest quote on the identical investment and term. The bid of each institution shall be recorded and kept on file for one (1) year.
6. In the event of identical interest yield bids, the City may break the tie by use of an objective method to be determined by the City.

7. In the event no quotes are received from a banking institution in the City of Fort Smith insured by the FDIC, the City may invest its funds in any banking institution insured by the FDIC in the state meeting the City's security requirements.
8. Clear title to the principal of and collateral backing for any investment will be maintained by the City or by a third-party safekeeping agent under agreement to the City.
9. The City may specify monthly interest payment in order to enhance cash flow and investment return.
10. The City Administrator, or his designated representative, will provide the Mayor and Board of Directors with monthly information concerning cash position and investment performance. The information shall include, as a minimum, type of investment, maturity date, face value, rate of interest, amount of interest received during the accounting period, and institution where the funds are invested.
11. A request for banking services will be issued when it is deemed necessary to provide services as required by the City. The request will be made to all qualified banks located within the City limits that are capable of providing the level of services required. Banking services may continue with a selected bank if the services provided are maintained at an acceptable level and reasonable cost.
12. The standard of prudence to be applied by the investment officials shall be the "prudent person rule" and shall be applied in the context of managing an overall portfolio. Under the prudent person rule, investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, but for investment, considering the probable safety of their capital as well as the probable revenue to be derived.

FINANCIAL REPORTING POLICIES

1. The City will adhere to a policy of full and open public disclosure of all financial activity. The budget will be prepared in a manner to maximize its understanding by citizens and elected officials. Copies of financial documents will be made available to all interested parties. Opportunities will be provided for full citizen input prior to final decisions on the budget.
2. The City's accounting system will maintain records on a basis consistent with the accepted accounting standards of the Governmental Accounting Standards

Board (GASB), Government Accounting Office (GAO), Financial Accounting Standards Board (FASB), and the State of Arkansas.

3. The City Administrator or his designee will prepare regular quarterly and annual financial reports presenting a summary of financial activity by major types of funds and programs.
4. The City will employ an independent public accounting firm to perform an annual audit, and will make the annual audit available to the general public, bond and financial consultants, and other interested citizens and organizations. The audit shall be completed and submitted to the City within 180 days of the close of the fiscal year.
5. The city will prepare an annual budget document that provides a basic understanding of the City's planned financial operations for the coming fiscal year. Copies of the proposed and final budget will be made available to all interested parties and opportunities will be provided for citizen input prior to final adoption of the budget.
6. The City will seek annual renewal of the GFOA Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award.
7. The City will provide all financial documents to the internal and external auditors and City representatives will not improperly influence the conduct of audits.