

STATEMENT OF PURPOSE

The City of Independence (“City”) has an important responsibility to its citizens to carefully account for public funds and to manage municipal finances wisely. The City Council is ultimately responsible for decisions concerning the fiscal management of the City. The Council, commissions, committees and City staff must also take into consideration the City Charter, Ordinances, Council’s goals and objectives and all applicable state and federal laws in its decision-making.

Whenever feasible and consistent with City policies, government activities will be considered enterprises if so doing will increase efficiency of service delivery or recover the cost of providing the service from the benefiting entity by user fees or property taxes for general services. The City will seek out, apply for, and effectively administer federal, state, and foundation grants-in-aid that address the City’s current priorities and policy objectives. The City will initiate, encourage and participate in economic development efforts to create job opportunities and strengthen the local economy.

PERIODIC REVIEW OF POLICIES

These policies have been duly adopted by resolution of the City Council and can be changed only through subsequent resolutions adopted by the City Council. These policies shall be reviewed as part of the strategic planning process by the Finance Director to determine whether any changes are necessary.

ACCOUNTING POLICIES

A. Maintenance of Accounting Records

1. The City shall establish and maintain its accounting systems in accordance with Generally Accepted Accounting Principles (GAAP) and shall adhere to the principles and standards promulgated by the Government Finance Officers Association (GFOA), Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The City shall maintain an accurate and current record of its fixed assets in order to factor its investment in these fixed assets into the fees the City charges for its services.

B. External Audit

1. An annual audit shall be performed by an independent public accounting firm, which will issue an official opinion on the annual financial statements, along with a management letter identifying areas needing improvement, if necessary. The annual audit report is presented to the City Council by the independent public accounting firm.

C. Financial Reporting

1. An annual Financial Report shall be submitted to present the results, financial position, and operations of the City for the prior fiscal year.. On a quarterly basis, a summary financial report will be sent to the City Council. The City will use its financial reports, and financial information, to help maintain and/or improve its current bond rating.

ASSET MANAGEMENT POLICIES

A. Investments

1. Responsibility and Control

- a. The City Manager will establish written procedures for the investment program, consistent with the Asset Management Polices. These procedures will include the establishment of authorization levels (dollar limits, approval levels, etc.), for the investment program. The City shall adhere to ORS 294.145 (Prohibited Conduct for Custodial Officer) in managing the investment program for the City.

2. Eligible Investments

- a. The City will invest the City's surplus funds only in those investments authorized by ORS 294.035, 294.040, and 294.155. The City will not invest in stocks and it will not speculate or deal in futures or options.

3. Eligible Financial Institutions

- a. The City will conduct business only with financial institutions (banks, investment brokers, investment bankers, trustees, paying agents, registrants, etc.) that are deemed to be credit worthy. The City will maintain current audited financial statements for each institution on which cash is invested as well as those with which it conducts other business (banking services, issuance of debt, etc.) Authorized signatories for checks and disbursements will be approved by the City Council.

4. Objectives

- a. Safety of principal is the foremost objective of the City. Each investment transaction shall be undertaken in a manner which seeks to ensure preservation of capital and avoidance of capital losses through securities defaults, erosion of market value or other risks. The amount of funds invested in any single financial institution will be limited to the amount covered by federal insurance or through the state's Public Funds Collateralization Program (PFCP).
- b. Liquidity – The City shall match the City's investment portfolio with its cash flow requirements. Due to the changing requirements of cash flow caused by factors not totally within the control of the City, the ability to convert a security into cash must be considered.
- c. Yield investments of the City shall be acquired in a manner designed to attain the maximum rate of return through all budget and economic cycles, taking into account constraints on investment instruments, cash flow characteristics of transactions and safety of principal.
- d. Reporting –On a quarterly basis, the City's investment performance will be presented to the City Council.

B. Cash Management

1. Responsibility and Control

- a. Staff will develop the capability to forecast the City's cash inflows and outflows. Accurate cash flow forecasts will allow the City to keep its debt service costs to a minimum and to maximize the yield on its temporary investments.
- b. Revenue and expenditure projections will be reviewed to determine the validity of assumptions, new information and accuracy of seasonal and/or periodic fluctuations.
- c. The City's cash flow will be managed with the goal of maximizing the total return on investments.

C. Investment in Deferred Compensation

1. Funds set aside by the City pursuant to its deferred compensation program agreement may be invested only in those financial instruments listed in ORS 294.035.

D. Maintaining Records of City Owned Assets

1. The City will develop and maintain a fixed asset record keeping system. This will include recording fixed asset values, from either an appraisal or physical inventory, into subsidiary ledgers to support amounts recorded in the City's government-wide financial statements. Changes in asset balances will conform to GASB 34 and related accounting standards.

BUDGET POLICIES

A. Statement of Philosophy

The budget is an annual financial and operational plan. It is a clear statement of City priorities as established by the Mayor and City Councilors. Any alteration of the adopted plan requires prior approval of the City Council.

The City will adopt a balanced budget for each fund meaning that budgeted expenditures plus contingencies and reserves, if required, will be met by an equal amount of budgeted resources.

The annual budget process shall address City priorities and packages of options and recommendations for City Council decisions. The Budget Committee will review, and, if necessary, revise the Proposed Budget. The Budget Committee will also consider

whether the submitted Proposed Budget adequately addresses the priorities set by the City Council.

The budget is a measure of the performance of City management. Managers will be held accountable for performance within the context of their budget. The staff is expected to budget appropriately and spend appropriately. It is also expected that the amounts requested by staff are realistic and expenses are charged to the correct account.

B. Compliance with Local Budget Law

The City shall prepare, adopt and amend its annual budget in accordance with Oregon Local Budget Law. It is the responsibility of the Budget Officer to prepare and present the City's annual budget to the Budget Committee for their approval. Budget Committee reviews and, if necessary, revises the proposed budget. The Budget Committee must approve the proposed budget and submit it for adoption by the City Council. The City Council has the final responsibility for adopting the budget and for making the necessary appropriations.

C. Budget Amendments

City departments shall plan an annual budget for each fiscal year which accurately reflects the service priorities and needs of the citizens as directed by the City Council. When revenues are not received as planned, the corresponding expenditures shall not be made. It is the responsibility of the department head to ensure that the necessary reduction in expenditures occurs.

When new sources of revenue, such as grants, become available, departments shall request a budget change, but must spend the additional revenues only for the programs or activities specified. Changes among line items within a major category are generally within the discretion of the department head, with review by the Budget Officer, provided such changes do not affect service priorities. However, transfers between major categories are discouraged and require approval of the City Councilors prior to expenditure of funds, consistent with ORS 294.450.

When in the case that new additional funding provided by other governmental units, be it federal, state, or local, or those funds are being provided by a private entity, or a substantially greater amount of ad valorem taxes or other revenues than anticipated are collected, and it is deemed necessary by the Budget Officer to prepare a supplemental budget, and those additional funds were not known for certain at the time the budget was prepared, the City shall prepare a supplemental budget that is to be prepared and adopted in accordance with Oregon Local Budget Law.

D. Inflation Guidelines

In preparing budgets for each fiscal year, City departments will use estimates of inflation factors to calculate increases in operational costs. Some products, services or commodities are more sensitive to inflationary cost adjustments than others.

E. Capital Improvement Plan

Each year's budget for capital expenditures will be in conformance with the Capital Improvement Plan (CIP) and in compliance with requirements of Oregon Revised Statutes. Only capital projects and acquisitions conforming to this policy will be undertaken by the City. The CIP also contains grant and debt policies to guide the use of those resources to fund capital projects in an appropriate manner.

F. Revenue

The City's policy is to maintain to the greatest extent possible a diversified base of revenue sources, limiting reliance on any single source. Applications for new grant sources will conform to grant policies.

When revenue estimates change, affecting service priorities, departments will amend their budgets to reflect changed expectations. Grants should be pursued to achieve the City's objectives and not solely for the purpose of gaining additional funds.

G. Fund Balance

Fund balance consists of the cumulative excess of revenues over expenditures. The best possible estimates of available fund balances will be used when proposing and adopting annual budgets, allowing the most realistic estimate of resources to be used when establishing service priorities for the ensuing fiscal year. Positive fund balances are required for cash flow purposes and should not be viewed as a resource for the following years, except in the case of unused grants or other funding sources which are restricted to specific purpose(s).

H. Fees and Charges

Each department will recommend a list of existing services and/or materials that are available to the public through City government for which the department head believes a service fee or charge is appropriate. Fees are appropriated where a discreet segment of the population directly benefits from the service as opposed to a service that has a general benefit for all residents and businesses. Revenue from fees is becoming more important as the yield from property taxes is capped by limits in the growth of the assessed value. On the other hand a fee should be fair and equitable and should not cause considerable administrative expense to collect. The City will also consider market rates and fees

charged by other municipalities of similar size for like services in setting rates, fees and charges.

Revenue projections should be on a yearly basis and based on the trend of the past several years. Substantial changes in the amount collected will require explanation.

It shall be the policy of the City to establish fees that are in compliance with state statutes and City ordinances. When fees are established, the fee will be set to recover the total cost associated with the service provided. A level of charges below total cost may be approved by the City Councilors, if considered in the best interest of the City.

I. Capital Expenditures within Departments

Capital Outlay budgets will include all anticipated expenditures for individual items with a cost greater than \$5,000 and a useful life expectation of one year or more. Purchases that do not fit this description are not considered Capital Outlay items.

J. Budgeting Contingency

In any year, circumstances may arise which could not have been reasonably anticipated and which may require a change in the annually adopted plan. Each fund may differ both in need for and ability to budget for a Contingency Account. Therefore, there will be one Contingency Account established in each operating fund, and the amount of the Contingency Account will be a predetermined amount or a percentage of the total resources budgeted in the fund. The amount or percentage to be used in each fund based on the following criteria:

1. The total resources typically available to the fund compared to the resources needed to fund annual service priorities,
2. Expenditure history in the fund,
3. City cash flow requirements for the fiscal year, or
4. Circumstances outside the control of the City.

To the extent that the unreserved General Fund balance exceeds the target of contingency, the City may draw upon the contingency fund balance of the General Fund to provide pay-as-you-go financing for capital projects, for other one-time capital equipment expenditures, transfers to capital reserve funds, or for accelerated debt service.

K. Use of Contingency

No expenditures shall be made from Contingency Accounts. A transfer to an expenditure account must first be approved by the City Council. Requests for transfers must address the following:

1. The need for expenditures additional to the service plan and priorities adopted in the original budget,
2. Conditions that could not have been anticipated prior to the adoption of the budget, and
3. Alternatives considered to the use of Contingency Accounts.

Managers will manage funds with the objective of the ending Fund Balance exceeding the original Contingency appropriation for the fiscal year.

CAPITAL IMPROVEMENT AND LAND ACQUISITION POLICIES

CAPITAL IMPROVEMENT

A. Capital Improvement Program

1. Definitions
 - a. The Capital Improvement Program (CIP) consists of a list of future facilities and infrastructure construction projects, major repair or facilities maintenance projects. Facilities include any structures or properties owned by the City, the land upon which the facility is situated for the provision of City services, and the initial furniture, fixtures, equipment and apparatus necessary to put the facility in service. Facilities include, but are not limited to the following: administrative offices, parks, service centers, storage yards, recreation centers, libraries and water and sewer related facilities.
 - b. Infrastructure includes permanently installed facilities, generally placed underground or at-grade, which form the basis for provision of City services. Typically included are thoroughfares, bike/pedestrian paths, sidewalks, bridges, water and sewer lines, and storm sewers.
2. Preparation

As part of the planning process City staff shall prepare and present a five-year CIP. The document shall provide details of each capital project plan: its estimated costs, sources of financing, performance measures that will be used to determine the success of the project, project timeline, identification of the project manager and a full description of the project. The City shall also identify the ongoing operation and maintenance costs associated with each capital project. Staff will review the financial and economic assumptions contained in the CIP and the CIP will contain a statement that such a review has taken place. The policies, strategies and standards established

by the City's Comprehensive Plan shall be followed by the staff in the preparation of the CIP. The CIP shall also incorporate guidelines established by the City Council's Strategic Plan, federal and state laws, and the needs of the community.

City staff will coordinate development of the Capital Improvement Plan budget along with the development of the operating budget. Costs for internal professional services needed to implement the CIP will be included in the operating budget for the year in which the CIP item is to be implemented.

3. Ranking

An objective process for evaluating CIP projects with respect to the overall needs of the City will be established through a ranking of CIP projects. The ranking of projects will be used to allocate resources to ensure priority projects are completed efficiently and effectively.

4. Financing

All alternative financing possibilities shall be examined in addition to debt financing. If debt is issued the asset life should be equal to or exceed the life of the debt being incurred. If debt is issued, the City will not exceed debt limits set by the Oregon Revised Statutes. Property owners that would benefit from an improvement will be expected to share in the cost of the improvement and in the financing of such improvement.

The City staff will identify the estimated costs, potential funding sources, and project schedule for each capital project proposal before it is submitted to the City Council.

All funding sources that comply with Oregon and Federal laws and regulations may be used to fund capital improvements.

A statement detailing the operating budget impact of each project will be presented to the City Council for its consideration.

5. Maintenance and Insurance

The City will maintain its physical assets at a level adequate to protect the City's capital investments and minimize future replacement and maintenance costs. The budget process will provide for review of maintenance conducted, and orderly replacement of capital assets from current revenues whenever possible.

The City will provide adequate insurance on all insurable capital assets.

6. Local Improvement Districts

When a Local Improvement District (LID) is established to fund capital projects, it must be self-funding. Sufficient assessments and reserves should be established so that the entire cost of the debt (interest and principal) is covered, as well as the administrative costs of handling the district. The City may choose to participate as a funding partner in an LID.

B. Monitoring the Capital Budget**1. Project Progress Reporting**

Regular reports shall be prepared on the progress of each active project by the project manager and made to Council. The reports should contain an evaluation of the progress of each project.

2. Project Review Process

The review process should identify problems involving capital projects as early in the project development as possible. The review process shall include quarterly reports to the City Council.

3. Amending the Capital Improvement Program

Any material changes to the CIP shall be reviewed and approved by the Budget Committee and the City Council. Such changes shall take the form of amending the CIP or supplemental appropriation, when required.

4. Performance Reporting

Once a project is completed, it will be the responsibility of the project manager to evaluate and report on the actual performance of the project. It is the project manager's responsibility to report to the City Council as to whether the project accomplished what it had set out to accomplish, (i.e., improve traffic congestion, improve productivity, etc.). The project manager will report back to the City Council within the timeframe established by the project plan.

LAND ACQUISITION POLICIES

A. Scope

These policies will cover the following types of land acquisition transactions: park land, open spaces and land for City facilities and buildings. These policies cover the aforementioned types of land acquisitions regardless of how the land was acquired by the City (purchase, lease, condemnation, donation, etc.). These policies exclude easements, right-of-ways and liens.

B. Approval of Land Acquisitions

The City Council is the approval authority for all land acquisitions entered into by the City. The City will consider opportunistic purchases of land to serve anticipated future needs.

C. Checklist

To facilitate the City Council's review/approval process, the following questions/issues need to be addressed by the sponsor of each proposed land acquisition:

1. A detailed description of the property being acquired, including an identification of what the land will be used for by the City,
2. A detailed analysis of why this is the right time to acquire this land,
3. A title report,
4. The full cost of the land acquisition must be provided, including the following:
 - a. Purchase price;
 - b. Funding source (e.g. dedicated funds, debt, SDC's, lease with purchase option);
 - c. Estimated annual operating costs to be borne by the City for a five year period following the date of acquisition;
 - d. Estimated revenue loss/gain (property taxes) for the five year period following the date of acquisition; and
 - e. Associated costs such as taxes owed, lien removals, or removal of other encumbrances on the property including structures.

5. State whether this land acquisition was included in both the City’s five-year capital improvement plan and its current budget. If not, identify the source of the funds and the effect on the City’s plan and budget,
6. State the lands designation in the City’s comprehensive plan and list its zoning designation,
7. State whether this land acquisition was contemplated by the appropriate master plan - if not – why is this acquisition being made,
8. State whether a phase I environmental assessment of the land being acquired needs to be performed and if so, at whose cost. This assessment includes a review of the historical use of the land,
9. State whether there are any applicable legal issues, such as effects of covenants that run with the land or status regarding tax exemptions, and
10. State whether there are any repair, maintenance, ADA or code enforcement issues that may be associated with any improvements on the land.

D. Review by City Manager

All submissions to the City Council related to land acquisitions will be accompanied by a City Manager review and recommendation.

GRANT MONITORING AND REPORTING

A. Review by City Manager

All grant proposals shall be reviewed and approved by the City Manager.

B. Monitoring and Reporting

All grant awards will be documented and submitted to the Finance Director for monitoring and reporting in the City of Independence financial records. The Finance Director as directed by the City Manager is responsible for ensuring that Single Audit Reports are timely submitted to the Federal Audit Clearinghouse.

DEBT MANAGEMENT POLICIES

A. Uses of Debt and Financial Advisory

Debt other than Interfund or short term cash-flow (lines of credit) loans shall not be used for operating purposes. No debt shall be in existence for longer than the useful life of the capital investment for which the debt was incurred.

The City may seek the advice of a Financial Advisor when necessary. A Financial Advisor will advise on the structuring of obligations to be issued, inform the City of various options, advise the City how choices will impact the marketability of City obligations, and will provide other services as defined by a contract approved by the City. The Financial Advisor will inform the City of significant issues.

B. Financing Alternatives

The City will examine financial alternatives to long-term debt. These alternatives will include pay-as-you-go, joint financing, lease-purchase, local improvement districts, special assessments, state and federal tax increment, borrowing from other funds, systems development charges and developer contributions. Before a decision is made, a cost benefit analysis will be performed for each alternative being considered with the goal of minimizing the cost of the financing to the City. The financial analysis shall be reviewed by the City prior to any final decision.

Either variable or fixed rate financing may be used, subject to applicable laws, depending on the cost benefit of each option to the City.

C. Credit Ratings and Disclosure

The City will adhere to recommended disclosure guidelines as endorsed by the Public Securities Association, the Government Finance Officers Association, the Municipal Securities Remaking Board and the Governmental Accounting Standards Board. The City will seek continuous upgrade of its current bond rating so that future borrowing costs are minimized and access to the credit market is preserved. The City will balance the goal of minimizing these costs with its stated policy of doing business with only stable, low risk, credit worthy firms.

If the City reaches a point at which it issues bonds frequently, the City , will begin to forge and maintain positive relationships with rating agencies, provide them with updates, and will coordinate meetings on new debt issuance as necessary.

The City will generally conduct financings on a competitive basis. However, negotiated financings may be used, with approval of the City Council, due to market volatility or the use of an unusual or complex financing or security structure.

The City will follow a policy of full disclosure on every financial report, official statement, and bond prospectus.

D. Debt Margins

The City shall ensure that its debt margins are within the three (3) percent true cash value limitation as set forth on ORS 287.004.

E. Bond Issuance Advisory Fees and Costs

The City shall be actively involved in the selection of all financial advisors, underwriters, paying agents and bond counsel. The City will evaluate the merits of rotating professional advisors and consultants and the various services and fee structures available from independent financial advisors.

REVENUE MANAGEMENT POLICIES

A. General Guidelines

Dedicated revenue sources shall be used only for the purpose for which they are being collected. One time revenue sources will not be used to fund ongoing activities of the City.

The City will closely manage the collection of its revenues. When necessary, discontinuing service, small claims court, collection agencies, foreclosures, liens and other methods of collection shall be used. The City will not finance long term revenue shortfalls through borrowing.

Dedicated revenue streams may only be used for the purpose for which they are being collected. Proposed additional revenue sources will be reviewed by the City Council in terms of community acceptability, competitiveness, diversity, efficiency, and fairness.

Revenue estimates will be conservative (underestimated), objective, and reasonable. Notwithstanding these Guidelines, the City Council may exercise its authority under State law to make interfund loans for a definite period of time at a fair interest rate.

B. Diversification of Revenue Sources

The City shall diversify its revenue system so as to shelter its operations from over reliance on any one revenue source.

C. System Development Charges, User Fees, and Other Charges**1. General**

System Development Charges (SDC's) allow cities to shift the cost of additional public facilities to those who benefit from them. An SDC is defined as a reimbursement fee, an improvement fee or a combination thereof assessed or completed at the time of increased usage of a capital improvement or issuance of a development permit, or building permit in connection to the capital improvement [see ORS 223.299 (4)(a)]. The City of Independence's preferred method of capital financing is the use of SDC's rather than the levying of taxes and/or the imposition of service charges on all City residents to pay for additional service capacity or the reimbursement of prior City investment in excess capacity. As a result, SDC's have been established that reflect the costs of providing roads, storm drains, water, sewer and parks improvements needed to service additional increments of growth.

In addition to the collection of SDC's the City also requires developers to contribute infrastructures by installing streets, water, and sewer and storm sewer facilities within their developments. The City will also assist in forming local improvement or reimbursement (zones of benefit) districts so that costs of improvements are assessed against the property/properties that benefits from the improvement. Finally, the City may issue revenue bonds for capital improvement projects in which revenues from SDC's and user charges will be used to pay the debt serviced on the bond.

2. Fees Increases/Reviews

Fees and charges should be reviewed on an annual basis to determine whether the fees being charged are adequate to cover the entire cost (operating, direct, indirect, and capital – including carrying costs) of providing the service. Before fees and charges are adjusted, the City shall consider the current competitive market rates of other cities of like size.

3. Fee Setting

When possible, fees and charges shall be set so that those who directly benefit for a service pay for it. Any changes in the City's fee structure shall be approved by the City Council prior to implementing the revised rates. This review will consist of a

detailed financial analysis to ensure that the City’s costs of providing the service are being covered.

D. Utility Rates

Charges for providing water, sewer, and storm sewer 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. Projects funded with SDC’s, general obligation bonds or developer contributions shall be excluded from this requirement. It is the City’s position that if a system’s capacity needs to be expanded as a result of growth, then the cost of the expansion should be borne by those causing the growth. On an annual basis, the City shall review and, if necessary, revise the rates it charges to its utility customers. Any suggested change will not be made unless there has been a review performed to ensure that the revised rates cover the costs incurred by the City in providing the service. The City’s rate structures will be sensitive to the “market price” for similar services as well as to smaller, infrequent users of the service.

E. Interest Income

Interest earned from the investment of City money shall be distributed to the appropriate fund in accordance with the equity balance of the particular fund from which the money was provided for investment.

PROCUREMENT POLICIES

A. Procurement Policies

All purchases made by City departments will comply with these Procurement Policies and those set out in the City’s Code pursuant to State Statute. Public service is a public trust. Each City employee, volunteer or elected official has a responsibility to the citizens of Independence for honesty, loyalty, and the performance of his or her duties under the highest ethical principles.