

Fiscal Policy Guidelines

For:

City of High Point, North Carolina

Adopted: April 3, 2006

Revised: June 5, 2017

FISCAL POLICY GUIDELINES

City of High Point, North Carolina

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FISCAL POLICY GUIDELINES - OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practice of the City of High Point, North Carolina. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective fiscal policy:

- * Contributes significantly to the City's ability to insulate itself from fiscal crisis,
- Enhances short term and long term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the City rather than single issue areas,
- Promotes the view of linking long-run financial planning with day to day operations, and
- Provides the City Council, citizens and the City's professional management a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

To these ends, the following fiscal policy statements are presented.

FISCAL POLICY GUIDELINES - *Continued*

City of High Point, North Carolina

CAPITAL IMPROVEMENT BUDGET POLICIES

1. The City will prioritize all capital improvements in accordance with an adopted capital improvement program.
2. The City will develop a five-year plan for capital improvements and review and update the plan annually. The City utilizes a weighted ranking system based on five critical factors to recommend projects to the capital improvement program. Additional projects can be added to the CIP without ranking, but funding for projects added in this manner are subjected to normal operating budget constraints.
3. The City will enact an annual capital budget based on the five-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be calculated and included in capital budget projections.
4. The City will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
5. The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.
6. The City will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
7. The City will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.

FISCAL POLICY GUIDELINES - *Continued*

CAPITAL IMPROVEMENT BUDGET POLICIES (continued)

8. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.
9. The City will attempt to determine the least costly and most flexible financing method for all new projects.

DEBT POLICIES

General

1. The City will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.
2. The City will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances in excess of policy targets, and current-year (pay-as-you-go) appropriations.
3. When the City finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
4. Where feasible, the City will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
5. The City will retire tax anticipation debt, if any, annually and will retire bond anticipation debt within six months after completion of the project.

Tax Supported Debt

6. Net debt as a percentage of total assessed value of taxable property should not exceed 2.5%. Net debt is defined as any and all debt that is tax-supported.

DEBT POLICIES (continued)

Tax Supported Debt

7. The ratio of debt service expenditures as a percent of total governmental fund expenditures should not exceed 15% with an aggregate ten-year principal payout ratio target of 60% or better.
8. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition. The City will regularly analyze total indebtedness including underlying and overlapping debt.
9. The City will target a minimum amount of equity funding of 10% of the capital improvement plan on a five-year rolling average.

RESERVE POLICIES

1. The City will establish an emergency reserve to pay for needs caused by unforeseen emergencies, including unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery costs. This contingency reserve will be budgeted at not less than 0.5% of the operating funds.
2. Unreserved, Undesignated Fund Balances will mean funds that remain available for appropriation by the City Council after all commitments for future expenditures, required reserves defined by State statutes, and previous Council designations have been calculated. The City will define these remaining amounts as “available fund balances.”
3. Available fund balances at the close of each fiscal year should be at least 10% of the Total Annual Operating Budget of the City.
4. The City Council may, from time-to-time, appropriate fund balances that will reduce available fund balances below the 10% policy for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the City of High Point. In such circumstances, the Council will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the City, then the Council will establish a different but appropriate time period.

FISCAL POLICY GUIDELINES - *Continued*

City of High Point, North Carolina

RESERVE POLICIES

5. The City will establish an emergency reserve to pay for needs caused by unforeseen emergencies, including unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery costs. This contingency reserve will be budgeted at not less than 0.5% of the operating funds.
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7. Available fund balances at the close of each fiscal year should be at least 10% of the Total Annual Operating Budget of the City.
8. The City Council may, from time-to-time, appropriate fund balances that will reduce available fund balances below the 10% policy for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the City of High Point. In such circumstances, the Council will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the City, then the Council will establish a different but appropriate time period.
9. The City has adopted a comprehensive strategy for the long-term stability and financial health of the Combined Water and Sewer Fund that provides for annual increases in fund reserves to an established goal of 50% of the Water and Sewer Fund operating budget.

FISCAL POLICY GUIDELINES - *Continued*

City of High Point, North Carolina

RESERVE POLICIES (continued)

10. *The City Council has adopted a strategy to stabilize retail electric utility rates for the benefit of users of the Electric Utility Operations Fund by creating a Rate Stabilization Reserve. The Rate Stabilization Reserve will be funded when there is a positive cumulative difference between wholesale purchased electric power cost and the City's current adopted retail electric rates. Upon completion of the audited Comprehensive Annual Financial Report the difference will be calculated and the annual amount and the accumulated reserve balance will be reported to the City Manager. The annual reserve amount will be calculated by multiplying the wholesale power cost by the annual rate differential. During the annual budget process, wholesale electric power costs will be determined, and if these cost exceed projected retail rates, the City Council may adopt a budget ordinance that will appropriate a portion of the reserve to offset retail rate increases. The City Council will not appropriate funds from the Rate Stabilization Reserve except as provided above.*

BUDGET DEVELOPMENT POLICIES

1. The City will develop the Annual Budget in conjunction with a stated program of performance objectives and measures with which to gauge progress toward meeting those objectives.
2. Water, sewer and electric rates will be established at the appropriate level to enable the related funds to be self-supporting. In addition, water and sewer rates will be established to maintain compliance with revenue bond covenants.
3. One-time or other special revenues will not be used to finance continuing City operations but instead will be used for funding special projects.
4. The City will develop the Annual Budget in conjunction with a stated program of performance objectives and measures with which to gauge progress toward meeting those objectives.

FISCAL POLICY GUIDELINES - *Continued*

City of High Point, North Carolina

BUDGET DEVELOPMENT POLICIES (continued)

5. Water, sewer and electric rates will be established at the appropriate level to enable the related funds to be self-supporting. In addition, water and sewer rates will be established to maintain compliance with revenue bond covenants.
6. One-time or other special revenues will not be used to finance continuing City operations but instead will be used for funding special projects.
7. The City will pursue an aggressive policy seeking the collection of delinquent utility, license, permit and other fees due to the City.

CASH MANAGEMENT AND INVESTMENT POLICIES

1. It is the intent of the City that public funds will be invested to the extent possible to reduce the need for property tax and utility revenues. Funds will be invested with the chief objectives of safety of principal, liquidity, and yield, in that order. All deposits and investments of City funds will be in accordance with N.C.G.S. 159.
2. The Financial Services Director will establish a Cash Management Program that will be conducted in such a manner as to insure that adequate funds will always be available to meet the City's financial obligations and to provide the maximum amount of funds available for investment at all times. The Program shall comprehensively address at a minimum; Accounts Receivable/Billings, Accounts Payable, Receipts, Disbursements, Deposits, Payroll, Special Appropriations and Debt Service Payments.
3. The City will use a Central Depository to maximize the availability and mobility of cash for all funds that can be legally and practically combined.

FISCAL POLICY GUIDELINES - *Continued*

City of High Point, North Carolina

CASH MANAGEMENT AND INVESTMENT POLICIES

4. All security transactions, including collateral for repurchase agreements, entered into by the city shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be listed in the City's name if issued only in book entry form or held by a third party custodian and evidenced by safekeeping receipts. Certificated investments will be held by the Financial Services Director in the name of the City.
5. Investments of the City will be diversified to eliminate the risk of loss as a result of over concentration of securities in a specific issuer, class of securities, or maturity sector.