



## CITY OF POQUOSON

FINANCE DEPARTMENT

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October 26, 2009

**TO:** City Council  
**FROM:** Finance Director  
**THROUGH:** City Manager  
**SUBJECT:** Financial Policies

At the last work session our financial advisors presented to Council a series of initial formal financial policy guidelines for the City.

Those financial policies included the following three debt policies:

- Tax-supported debt service expenditures as a percentage of general government expenditures should not exceed 10%
- Tax supported debt shall not exceed 3% of the total assessed value of taxable property
- Retire at least 50% of the principal of tax-supported debt within 10 years

The policies also included two fund balance policies:

- General Fund undesignated fund balance at the end of each fiscal year be equal to at least 15% of total General Fund Operating Expenditures
- Over the next two fiscal years, build a fiscal stability reserve of at least \$1 million

Having these guidelines will:

- Contribute significantly to the City's ability to insulate itself from fiscal crisis
- Enhance short-term and long-term financial credit ability by helping to achieve the highest credit standing or rating possible
- Promote long term financial stability by establishing clear and consistent guideline
- Direct attention to the total financial picture of the City rather than single issue or area
- Promote the view of linking long run financial planning with day to day operation
- Provide staff, Council and the citizenry a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines

With the current economic situation and the uncertainty of future economic conditions, the fiscal stability reserve policy could be modified to building the reserve over time but not necessarily over a two year period.

Attached is a policy as presented by the financial advisors as well as an alternative for the building of the fiscal stability reserve fund over time. A resolution for your consideration is also attached for adopting these policies

**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION ADOPTING FINANCIAL POLICY GUIDELINES**

**WHEREAS**, the City of Poquoson's financial advisors have developed a series of initial formal financial policy guidelines for the City; and

**WHEREAS**, the policies were presented at the October 13, 2009 work session by the financial advisors and discussed; and

**WHEREAS**, these policies will serve to contribute significantly to the City's ability to insulate itself from fiscal crisis, enhance short and long term credit ability, promote long-term financial stability, direct attention to the total financial picture of the City, promote the view of linking long run financial planning with day to day operations and provide City staff, Council and citizenry a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines; and

**NOW, THEREFORE, BE IT RESOLVED** by the Council of the City of Poquoson, Virginia:

**Section 1:** That the Financial Policy Guidelines attached hereto are hereby adopted.

**Section 2:** That this resolution shall be in effect on and after its adoption.

**ADOPTED:** \_\_\_\_\_

**TESTE:** \_\_\_\_\_

**City Clerk**

As presented by the Financial Advisors

## **City of Poquoson Financial Policy Guidelines**

**PURPOSE:** The financial policies will serve to insulate the City of Poquoson from fiscal crisis, enhance short -term and long –term financial credit ability by helping to achieve the highest credit standing / ratings possible, promote long-term financial stability by establishing clear and consistent guidelines, direct attention to the total financial picture of the City rather than a single issue or area, promote the view of linking long-run financial planning with day-to-day operations, and provide the City’s staff, Council, and the citizenry a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

### **FUND BALANCE POLICIES**

The General Fund undesignated fund balance at the close of each fiscal year should be equal to at least 15% of total general fund operating expenditures.

Over the next two fiscal years the City will build a Fiscal Stability Reserve of at least \$1 million. This Fiscal Stability Reserve will serve as contingency against unanticipated / emergency expenditures (i.e. hurricane related). The Fiscal Stability Reserve will be separate over and above the undesignated fund balance referenced above.

The General Fund undesignated fund balance should be drawn upon only as absolutely necessary and any use thereof should be limited to:

1. one-time capital needs
2. to help offset expenditures during a fiscal emergency
3. non-recurring expenditures
4. providing liquidity in emergency situations
5. financial opportunity to enhance the well being of the City.

If the undesignated fund balance falls below the policy level after having been calculated as part of closing-out a fiscal year, the City will adopt a plan as part of the following year’s budget process to restore the undesignated fund balances to the policy level within 24 months from the date of the budget adoption. If restoration cannot be accomplished within such time period without severe hardship to the City, then the City Council will establish a different but appropriate time period.

## **DEBT POLICIES**

The City will annually calculate target debt ratios for direct, non-revenue based debt that is dependent on the general fund for the payment of debt service. So long as payments from the general fund to the enterprise fund are not necessary to make up shortfalls in the enterprise fund, enterprise fund debt will not be included in the calculation of the debt ratios. The City's debt capacity shall be maintained within the following primary goals:

Tax-supported Debt service expenditures as a percentage of General Government expenditures should not exceed 10%. General Government expenditures shall be equal to general fund operating expenditures, plus the school operating fund expenditures, less the general fund transfer to the schools operating fund.

Tax-supported debt of the City shall not exceed 3.0% of the total assessed value of taxable property in the City.

The City shall retire at least 50% of the principal amount of its tax-supported debt within 10 years.

## Modified Fiscal Stability Fund Policy

# City of Poquoson Financial Policy Guidelines

**PURPOSE:** The financial policies will serve to insulate the City of Poquoson from fiscal crisis, enhance short -term and long –term financial credit ability by helping to achieve the highest credit standing / ratings possible, promote long-term financial stability by establishing clear and consistent guidelines, direct attention to the total financial picture of the City rather than a single issue or area, promote the view of linking long-run financial planning with day-to-day operations, and provide the City’s staff, Council, and the citizenry a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

### **FUND BALANCE POLICIES**

The General Fund undesignated fund balance at the close of each fiscal year should be equal to at least 15% of total general fund operating expenditures.

The City will build a Fiscal Stability Reserve of at least \$1 million. This Fiscal Stability Reserve will serve as contingency against unanticipated / emergency expenditures (i.e. hurricane related). The Fiscal Stability Reserve will be separate over and above the undesignated fund balance referenced above.

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If the undesignated fund balance falls below the policy level after having been calculated as part of closing-out a fiscal year, the City will adopt a plan as part of the following year’s budget process to restore the undesignated fund balances to the policy level within 24 months from the date of the budget adoption. If restoration cannot be accomplished within such time period without severe hardship to the City, then the City Council will establish a different but appropriate time period.

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Tax-supported debt of the City shall not exceed 3.0% of the total assessed value of taxable property in the City.

The City shall retire at least 50% of the principal amount of its tax-supported debt within 10 years.