

RESOLUTION 2008-038
OF THE COUNCIL OF THE CITY OF FORT COLLINS
ADOPTING AMENDMENTS TO THE FINANCIAL
MANAGEMENT POLICIES

WHEREAS, City Council has adopted Financial Management Policies for the City pursuant to Resolution 1994-174; and

WHEREAS, Resolution 1994-174 provides that Council may adopt amendments to the City's Financial Management Policies; and

WHEREAS, the City Financial Officer and City Manager have recommended certain proposed amendments to the Financial Management Policies; and

WHEREAS, the City is committed to sound and efficient financial planning and management; and

WHEREAS, the proposed amendments to the Financial Management Policies establish guidelines for sound and efficient financial planning and management, and reflect current requirements and laws that apply to the City's financial activities; and

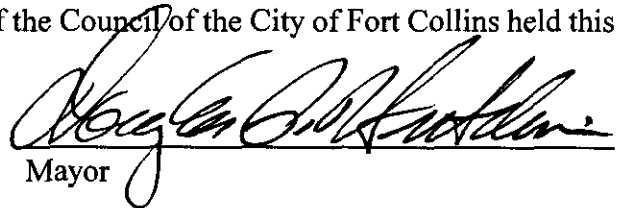
WHEREAS, the City Council wishes to adopt these amendments to the City's Financial Management Policies in pursuit of its objective of sound and efficient financial planning and management.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FORT COLLINS as follows:

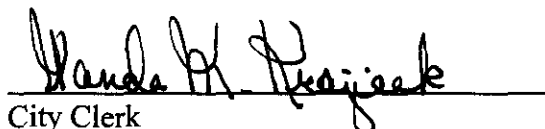
Section 1. That the Council hereby adopts the amendments to the City's Financial Management Policies attached hereto as Exhibit "A" and incorporated herein by this reference.

Section 2. That the amendments to the Financial Management Policies adopted by the passage of this Resolution shall be included as part of said Policies, and those Policies shall hereafter remain in effect until the same are amended or repealed by subsequent action of the City Council.

Passed and adopted at a regular meeting of the Council of the City of Fort Collins held this 15th day of April, A.D. 2008.


Mayor

ATTEST:


City Clerk

FUND POLICIES

4.1. GENERAL FUND

The General Fund is the largest and most diverse of the City's operating funds. It includes all resources not legally restricted to specific uses. The major source of revenue to the General Fund is sales and use tax, which accounts for approximately 60% of the revenue. Local property tax and Lodging Tax are also included, as are revenues derived from fees for services and materials, licenses, permits, and fines.

4.2. ENTERPRISE FUNDS

The City has five Enterprise Funds. These are Golf, Light & Power, Wastewater, Storm Drainage, and Water. The Enterprise Fund classification has been used to account for various services for which there exists a significant potential for financing through user charges. Historically, services were accounted for in an Enterprise Fund if financed more than 50% by user charges (of the five Enterprise Funds, all but the Golf Fund are also treated as "enterprises" within the meaning of Article X, Section 20 of the State Constitution). All Enterprise Funds will recover 100% of their costs.

The goal of all enterprise accounts is self-sufficiency. Toward this end, funds that are not recovering at least 75% of costs shall incrementally adjust their rate structures to achieve a positive income position. Those operations which cannot achieve a positive income position within a five year time frame may be accounted for as subsidized operations and not as Enterprise Funds.

a. Utility Services

The financial policies of the Utilities are administered in accordance with the City Charter. Each of the four utilities has been established, and is operated as an "enterprise" as permitted by the City Charter in accordance with Article X, Section 20 of the Colorado Constitution.

1. Fiscal Responsibility

Per the Charter, the Financial Officer will maintain a standard system of accounting which shall, at all times, correctly reflect all financial operations of each utility. The Utilities may keep other supplemental records and data as are generally used by various segments of the utility industry.

The Financial Officer shall keep accounts of each Utility Fund separate and distinct from all other accounts of the City. Accounts for the Utilities shall contain proportionate charges for all services performed by other departments as well as proportionate credits for all services rendered to other departments.

2. Utility Rates

Utility rates will be based upon the cost of service approach to reflect full distribution of costs to appropriate rate classes in order to effect equitable sharing of costs. Rates shall be established and maintained at a level sufficient to maintain positive net income in each of the utility funds after paying the full cost of operating and maintaining the utilities and keeping them in good repair and working order. Such rates shall also be sufficient to enable each utility, where applicable, to meet rate requirements of City or utility enterprise bond ordinances.

b. Water Utility

The following policies pertain to the Water Utility-Water Fund.

1. Pledge of Revenues

The City's general obligation water bonds are general obligations of the City secured by a covenant to levy taxes to make all bond payments. Thus, they are backed by the full faith and credit of the City. In addition, the City has pledged revenues from monthly water charges, plant investment fees, supplemental user fees (collected pursuant to the Anheuser-Busch Master Agreement--hence "A-B supplemental user fees"), investment earnings, and all other income derived from the operation of the Water Fund toward payment of the bonds. The City's practice is to pay general obligation water bonds from revenues of the water system rather than through property taxation. The City has pledged the Water Fund revenues indicated above toward the payment of its water enterprise revenue bonds.

2. Rate Maintenance

The Water Revenue Bond Ordinances require the City to charge and earn sufficient revenue to produce "net pledged revenues" that are equal to 110% of the actual annual debt service requirements for all outstanding water revenue bonds plus 100% of all costs payable to issuers of reserve fund sureties. Net pledged revenues are defined as all revenues of the Water Fund, less O&M expenses.

3. Water Capital Cost Financing

Capital cost will be identified as either:

- (a) Minor Capital--relatively small capital acquisitions such as vehicles, lab equipment, or minor improvements; or
- (b) Capital Projects--major additions, improvements, or expansions to utility plant.

Financing for minor capital is through water utility revenues. Financing for capital projects is principally through long-term debt financing.

c. Wastewater Utility

The following policies pertain to the wastewater utility-Wastewater Fund.

1. **Pledge of Revenues**

In accordance with the City and Wastewater Enterprise Bond Ordinances (together the "Bond Ordinances"), the City has pledged revenue from monthly sewer charges, plant investment fees, A-B supplemental user fees, investment earnings, and all other income derived from the operation of its wastewater utility toward the payment of its sewer revenue bonds.

2. **Rate Maintenance**

The Bond Ordinances require the City to charge and earn sufficient revenue to produce "net pledged revenues" that are equal to 115% of the actual annual debt service requirements for all outstanding bonds plus 100% of all costs payable to issuers of reserve fund sureties. Net pledged revenues are defined as all revenues of the Wastewater Fund indicated above, less O&M expenses.

3. **Wastewater Capital Cost Financing**

Capital cost will be identified as either:

- (a) **Minor Capital**--relatively small capital acquisitions such as vehicles, lab equipment, or minor improvements; or
- (b) **Capital Projects**--major additions, improvements, or expansions to utility plant.

Financing for minor capital is through utility revenues. Financing for capital projects is principally through long-term debt financing.

d. Stormwater Utility

The following policies pertain to the stormwater utility - Storm Drainage Fund.

1. **Pledge of Revenues**

In accordance with the City and Storm Drainage Enterprise Bond Ordinances (together the "Bond Ordinances"), the City has pledged revenue from monthly charges, stormwater development fees, investment earnings, and all other income derived from the operation of its stormwater utility toward the payment of its storm drainage revenue bonds.

2. **Rate Maintenance**

The Bond Ordinances require the City to charge and earn sufficient revenue to produce "net pledged revenues" that are equal to 125% of the actual annual debt service requirements for all outstanding bonds. Net pledged revenues are defined as all revenues of the Storm Drainage Fund indicated above, less O&M expenses.

3. **Storm Drainage Capital Cost Financing**

Capital cost will be identified as either:

- (a) Minor Capital--relatively small capital acquisitions such as vehicles, equipment, or minor improvements; or
- (b) Capital Projects--major additions, improvements, or expansions to the storm drainage system.

Financing for minor capital is through utility revenues. Financing for capital projects is principally through long-term debt financing.

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4.4. SPECIAL REVENUE AND DEBT SERVICE FUNDS

Special Revenue Funds are used to account for the proceeds of revenue sources which are restricted by law or administrative action to expenditures for specified purposes. The Debt Service Fund is used for the payment of principal and interest on long-term debts. The major source of revenue in the Debt Service Fund is the Sales & Use Tax.

a. Cultural Services & Facilities Fee Policy

The Cultural Services & Facilities Fund shall budget to recover at least 40% of its total cost in revenue generated through implementing the following policy:

- 1. Total revenue from fees and charges shall cover a minimum of 55% of Lincoln Center Operation and Maintenance and Performing and Visual Arts Programming Budgets. This includes revenues generated at the Lincoln Center from rentals, equipment, concessions and other miscellaneous sources and all total direct revenues from the Performing and Visual Arts Programming. A transfer from the General Fund will make up the difference between total revenue and expenditures.
- 2. The Cultural Services and Facilities Administration and Museum budgets provide minimal financial support. These programs are funded primarily by a transfer from the General Fund.
- 3. Major capital improvements and renovations will be financed through sources other than Cultural Services and Facilities Fund.

4. Solicitation of funds through donations, fund-raising events, and non-traditional sources shall be encouraged by the City staff, Lincoln Center League, the Cultural Resources Board and the City Council.

Funding collected for any special purpose shall be earmarked for that purpose and those funds will be processed through the Fort Collins Foundation.

b. Art in Public Places

The purpose of this program is to encourage and enhance artistic expression and appreciation and to add value to the community through acquiring, exhibiting and maintaining public art. The program provides a funding mechanism and contains guidelines pertaining to the selection and acquisition of works of art, restrictions on the usage of certain funds available for the acquisition of art, upkeep and maintenance of public art, and other areas pertaining to the general administration of the program.

Following is a summary of the guidelines which provide a framework for the implementation and administration of the City's Art in Public Places program.

1. Program Funding

The APP program's link to funding is the City's Capital Improvements.

- (a) The program encourages City departments to include artistic and aesthetic values in all construction projects, including those costing less than \$50,000, and all purchases of personal property that may be located or used in places open to the public.
- (b) For eligible projects costing between \$50,000 and \$250,000, a city selected artist must be utilized and participate in the design of the project for the purpose of incorporating works of art into all aspects of the project to the fullest extent possible within the project budget. Costs incurred by the artist in providing these services to the City are to be paid from the project budget.
- (c) Requests for appropriations in excess of \$250,000 for eligible projects must include an amount equal to one percent (1%) of the amount appropriated at the time of the request. One percent of the amount appropriated will be earmarked for works of art and subsequently reserved, if not spent, in the Cultural Services and Facilities Fund, with the exception of eligible appropriations in the Utility Funds (Light & Power, Water, Wastewater, and Storm Drainage). Each of the Utility Funds is required to establish their own accounts and reserves for the APP program to account for the 1% earmarked for works of art for eligible utility projects.

2. Program Administration

The APP Board, with the assistance of the APP Coordinator, will have the responsibility of coordinating and making recommendations regarding:

- (a) acquisition of works of art,
- (b) process to be used to select works of art and artists,
- (c) works of art selection criteria,
- (d) acquisition of donated artwork,
- (e) certain restrictions on the use of restricted program funds, and
- (f) encouraging donations for public art.

Program guidelines also include definitions of art in public places, work of art, construction project, and APP Coordinator as well as provisions for the installation of art and contractual agreements between the City and artists or donors of works of art.

3. Reserves

Art in Public Places Reserve - This reserve is restricted to Art in Public Places program use. Appropriations from this reserve and subsequent expenditures are restricted to the acquisition or lease of works of art, the maintenance, repair or display of works of art, and the expenses of administering the Art in Public Places program.

The reserve is funded by amounts equal to 1% of eligible requested capital project appropriations in excess of \$250,000, excluding Light & Power, Water, Wastewater, and Stormwater funds. These funds are required to set up their own restricted reserve accounts for Art in Public Places.

c. Recreation Fund Fee Policy

The following fee policy for the Recreation Fund was adopted by Resolution 1990-132 on September 4, 1990. The goal of the policy is to provide for a more equitable distribution of the costs of recreational programs between program users and General Fund tax dollars.

Costs associated with the Recreation Fund shall be defined as either Program Costs or Community Good Costs.

1. Program costs are directly associated with the activities and facilities used by the citizens, and include the following:

(a) Activity Costs

- (1) part time staff**
- (2) materials**
- (3) equipment**
- (4) participant transportation**
- (5) other costs directly associated with conducting activities**

(b) Facility Operation and Maintenance Costs

- (1) minor repairs**
- (2) custodial equipment and supplies**
- (3) building utilities**
- (4) specialized items**
- (5) other operations and maintenance costs directly associated with operating facilities**

Fees should cover the cost of the direct program experience and facilities used. However, fees may be established in accordance with the market value of the recreational services provided. The fees charged will not exceed the cost of providing direct services to program users.

2. Community Good costs are those costs that are necessary to provide a program but are not directly experienced by the user. Such costs include the following:

- (a) full time recreation staff**
- (b) office operation costs such as telephone and computer charges**
- (c) training costs**
- (d) dues and subscriptions**
- (e) insurance**
- (f) office supplies and equipment**
- (g) other costs not directly experienced by the users**

The General Fund shall cover "Community Good" costs. General Fund will also cover deficits in programs that cannot recover all their costs through fees. Generally, these include programs designed for special populations where it is not feasible to cover the total cost of participation, or programs, like youth sports where Council policy requires a fee discount. Because costs that are defined as "Community Good" costs are supported by the General Fund, they are subject to the same operational guidelines as established for other General Fund budgets.

RESERVE POLICIES

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5.2. TYPES OF RESERVES

The City of Fort Collins maintains reserves that are required by law or contract and that serve a specific purpose. These types of reserves are considered restricted and are not available for other uses. Within specific funds, additional reserves may be maintained according to adopted policies. All expenditures of reserves must be approved by Council. This may occur during the budget process or throughout the budget year.

GENERAL FUND

Restricted for Emergencies - this reserve is required under Article X, Section 20 of the State Constitution. This reserve can only be used for declared emergencies. Three percent or more of the City's fiscal year spending, less bonded debt service must be reserved.

Designated for Affordable Housing - this reserve is restricted for affordable housing use. City Council may appropriate funds for affordable housing purposes. Funds appropriated for the promotion of affordable housing and not expended during the year shall lapse to the Affordable Housing Reserve. Any appropriation from this reserve shall be restricted for the purpose of affordable housing.

60 Day Liquidity Goal - The Designation for Contingency should be at least 60 days (17%) of the subsequent year's originally adopted budgeted expenditures and transfers out. The calculation for the minimum level shall exclude expenditures and transfers out for large and unusual one-time items. Monies held in this reserve may be appropriated during the current budget year and may also be used for the ensuing budget years as a financing source if projected expenditures needed to maintain appropriate levels of service exceed projected revenues. Of all General Fund reserves, this is the most flexible.

SPECIAL REVENUE FUNDS

Examples of special revenue funds are: Transportation Services Fund, Natural Areas Fund, Cemetery Fund, Cultural Services & Facilities Fund, Perpetual Care Fund, Recreation Fund, Street Oversizing Fund, and the Transit Services Fund. The fund equity of special revenue funds is classified as reserved or unreserved. Unreserved portions may be classified as either designated or undesignated. Designated fund balances represent amounts identified by management for future use. Reserved fund balances indicate that portion of fund equity, segregated for future use, which are legally required to be segregated in accordance with legal and contractual provisions.

Fund managers are allowed to identify fund equity designations (unreserved) provided resources are available in excess of the fund equity used to fulfill reserved balances and those designations determined by policy.

Designated for Operations – This reserve designation is established to provide for unforeseen revenue losses. If something happens to the economy, there is flexibility without worrying that current expenditures will exceed the total revenue available. The revenue reserve is calculated, as a minimum, at an amount equal to 2% of projected operating expenditures by fund. The Operations Reserve is not appropriated as part of the annual budget, but may be utilized at the end of the fiscal year, if necessary.

DEBT SERVICE FUNDS

Debt service funds are generally not expected or managed to carry any fund balance reserves. Their function is to make debt payments, and receive transfers from other funds to cover the payments, or collect special revenues dedicated for debt service.

ENTERPRISE FUNDS

Enterprise funds use full accrual based accounting. Their Equity or Fund Balance on a balance sheet is referred to as Net Assets. In general, Net Assets are subdivided into three areas, somewhat based on increasing levels of liquidity. The first division is *Nets Assets Invested in Capital Assets, less Related Debt*. This class of Net Assets is not liquid at all, and hence not subject to appropriation. The second division is *Nets Assets Restricted to Debt Service*. This class of Nets Assets, if it exists at all, is imposed by debt covenants. Although each covenant is unique, it commonly equals the next year's debt service payments. The last division is *Unrestricted Net Assets*, which ultimately is the remaining after the other two divisions are satisfied. It is this class of net assets that the following policies address.

Electric Utility

The following policies pertain to the electric utility-Light and Power Fund. Since the utility is debt-free, these policies pertain primarily to maintenance of reserves. The utility shall be operated:

1. To provide an operating reserve equal to 8% of budgeted operating expenditures, excluding the cost of purchased power;
2. To provide a future capital improvements reserve in an amount equal to the average annual cost (excluding debt financing) of the approved five-year capital improvement plan, considering any changes which, from time to time, may be made in such plan;
3. To provide a purchase power reserve up to approximately 25% of the annual revenue from the sale of electrical energy. This reserve shall be used to partially offset, defer, or mitigate the impact of purchase power cost increases due to factors such as federal power issues. Significant changes to the 25% level shall be reported to the Council during the budget process;

4. Capital Outlay Reserve – at an amount needed to maintain capital assets and equipment reserve at an amount equal to the capital asset replacement schedule;
5. Priority for the accumulation of reserves shall be as follows: reserves shall first be accumulated in the operating reserve, second in future capital improvements reserve, third in the purchase power reserve. In addition, 1% of specified capital project appropriations shall be reserved and restricted for the City's Art in Public Places program. After reserves are funded, any remaining working capital shall be added to the purchase power reserve.

Water Utility

The following policies pertain to the Water Utility - Water Fund.

Flow of Funds

The City has committed to maintain rates and charges sufficient to generate sufficient "net revenues" of the water system to pay principal and interest on its water revenue bonds and general obligation water bonds. Net revenues include all revenues referred to above, less operation and maintenance (O&M) expenses. O&M expenses are those expenses necessary to operate, maintain, and repair the water system, but do not include any allowance for depreciation or capital replacements and improvements. After all O&M expenses are paid, the remaining net revenue is pledged to pay the revenue bonds principal, interest, and related costs. After all O&M and debt services expenses are paid, the City is required to maintain the following revenue bond accounts:

1. Principal and Interest Reserve - at an amount equal to the accrued principal and interest on the water revenue bonds; or
2. Debt Service Reserve - at an amount specified in the bond ordinances.

Any remaining net revenues of the Water Fund may be used for any lawful purpose. These are used, in part, to fund major and minor capital improvements and the following reserves:

1. Operating Reserve - at an amount equal to 5% of the projected operating revenue for the ensuing year;
2. Water Rights Reserve - at an amount equal to the amount of cash in-lieu-of water rights payments and raw water surcharges less any expenditures for acquiring water rights;
3. Art in Public Places Reserve - at an amount equal to 1% of eligible capital projects whose appropriations exceed \$250,000;

4. Capital Outlay Reserve – at an amount needed to maintain capital assets and equipment reserve at an amount equal to the capital asset replacement schedule;
5. Capital Projects Reserve - at an amount equal to remaining working capital after all other reserves are satisfied.

Wastewater Utility

The following policies pertain to the wastewater utility-Wastewater Fund.

Flow of Funds

The first charge against Wastewater Fund revenue is operation and maintenance (O&M) expenses--those expenses necessary to operate, maintain, and repair the sewer system. After all O&M expenses have been paid, the remaining net revenue is pledged to pay the sewer revenue bonds principal, interest, and related costs. After all O&M and debt services expenses are paid, the City is required to maintain the following reserve accounts (listed in pledge order):

1. Principal and Interest Reserve - at an amount equal to the accrued principal and interest on the sewer revenue bonds; or
2. Debt Service Reserve - at an amount specified in the bond ordinances.
3. Wastewater Bond Capital Reserve - at an amount equal to 25% of the O&M expenses budgeted for the fiscal year.

Any remaining net pledged revenues of the Wastewater Fund may be used for any lawful purpose. These are used, in part, to fund major and minor capital improvements and the following reserves:

1. Operating Reserve - at an amount equal to 5% of the projected operating revenue for the ensuing year;
2. Art in Public Places Reserve--at an amount equal to 1% of eligible capital projects whose appropriations exceed \$250,000;
3. Capital Outlay Reserve – at an amount needed to maintain capital assets and equipment reserve at an amount equal to the capital asset replacement schedule;
4. Capital Projects Reserve - at an amount equal to remaining working capital after all other reserves are satisfied.

Stormwater Utility

The following policies pertain to the stormwater utility - Storm Drainage Fund.

Flow of Funds

The first charge against Storm Drainage Fund revenue is operation and maintenance (O&M) expenses-those expenses necessary to operate, maintain, and repair the storm drainage system. After all O&M expenses have been paid, the remaining net revenue is pledged to pay the storm drainage revenue bonds principal, interest, and related costs. After all O&M and debt service expenses are paid, the City is required to maintain the following reserve accounts (listed in pledge order):

1. Principal and interest reserve-at an amount equal to the accrued principal and interest on the storm drainage revenue bonds;
2. Debt service reserve-at an amount specified in the bond ordinances.

Any remaining net pledged revenues of the Storm Drainage Fund may be used for any lawful purpose. These are used, in part, to fund major and minor capital improvements and the following reserves:

1. Operating Reserve--at an amount equal to 5% of the projected operating revenue for the ensuing year;
2. Art in Public Places Reserve - at an amount equal to 1% of eligible capital projects whose appropriations exceed \$250,000; and
4. Capital Outlay Reserve – at an amount needed to maintain capital assets and equipment reserve at an amount equal to the capital asset replacement schedule;
5. Capital Projects Reserve - at an amount equal to remaining working capital after all other reserves are satisfied.

Golf Fund

Designated for Operations – This reserve designation is established to provide for unforeseen revenue losses. If something happens to the economy, there is flexibility without worrying that current expenditures will exceed the total revenue available. The revenue reserve is calculated, as a minimum, at an amount equal to 2% of projected operating expenditures by fund. The Operations Reserve is not appropriated as part of the annual budget, but may be utilized at the end of the fiscal year, if necessary.

INTERNAL SERVICE FUNDS

Internal Service funds account for certain support services provided to other funds. By imposing charges to the users of the services, they recover their costs. The City's Internal Service Funds are used to account for the City's fleet maintenance (Equipment Fund), management information services and communication services (Data and Communications Services Fund), self-insurance of employee health care and other

employee benefits (Benefits Fund), and a risk management insurance program (Self Insurance Fund).

Accounting guidelines strongly encourage internal service fund to charge only enough to the recovery of the cost of the service, including depreciation, rather than making a profit. However, in certain situations it is appropriate to establish fund balance reserves policies. For example, customer-approved master plans and independent third-party actuarial reviews (Benefits Fund and Self Insurance Fund) guide the level of reserves.

Designated for Operations – This reserve designation is established to provide for unforeseen revenue losses. If something happens to the economy, there is flexibility without worrying that current expenditures will exceed the total revenue available. The revenue reserve is calculated, as a minimum, at an amount equal to 2% of projected operating expenditures by fund. The Operations Reserve is not appropriated as part of the annual budget, but may be utilized at the end of the fiscal year, if necessary.