

RESOLUTION 2014-058
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 (the "Policies"); and

WHEREAS, Resolution 1994-174 provides that City Council may adopt amendments to the Policies, which the Council has done several times over the years; and

WHEREAS, the City Financial Officer and City Manager have recommended new amendments to the Policies related to the City's budget and fund balance minimums; and

WHEREAS, the City is committed to sound and efficient financial planning and management consistent with the best practices as established by the Government Finance Officers Association ("GFOA"); and

WHEREAS, the amendments to the Policies related to budget are set out in the "Budget Policy" attached hereto and incorporated by reference as Exhibit "A" ("Amended Budget Policy"); and

WHEREAS, the amendments to the Policies concerning "Fund Balance Minimums" are attached hereto as Exhibit "B" and incorporated by reference ("Amended Fund Balance Minimums"); and

WHEREAS, the Amended Budget Policy and the Amended Fund Balance Minimums (jointly, "Amendments") establish guidelines for sound and efficient financial planning and management, reflect the City's current legal requirements that apply to the City's financial activities, and constitute GFOA best practices; and


WHEREAS, the City Council wishes to adopt these Amendments 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 City Council hereby approves and adopts the Amended Budget Policy and the Amended Fund Balance Minimums.


Section 2. That the Amendments shall be included as part of the Policies, and the Policies, as previously amended and as amended herein, shall hereafter remain in effect until the same are amended or repealed by subsequent action of the City Council.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 this 15th day of July, A.D. 2014.



Mayor Pro Tem

ATTEST:



City Clerk



Budget Policy

Issue Date:
Version: 2
Issued by: Lawrence
Pollack

Objective:

Governments allocate scarce resources to programs and services through the budget process. As a result, it is one of the most important activities undertaken by governments. The purpose of this policy is to establish parameters and provide guidance governing the budget for the City of Fort Collins (City).

Applicability:

This budget policy applies to all funds and Service Areas of the City.

Authorized by:

City Council

1.1 Overview

The Fort Collins City Charter establishes time limits and the essential content of the City Manager's proposed budget, however the budget preparation process is not prescribed, but is developed by the City Manager with input from the City Council.

The fiscal year of the City is the calendar year. The City may adopt budgets for a budget term of one fiscal year or more. After the Charter amendment in 1997 allowing the budget term to be more than one fiscal year, the Council has adopted two-year budgets that correspond with the election cycle.

The budget is a 2-year plan by which the City Council sets the financial and operational priorities for the City - through the budget, services are implemented. The budget along with the annual appropriation ordinance provides the basis for the control of expenditures. The State Constitution and the City Charter provide the basic legal requirements and time lines for the process. Council goals, ordinances and resolutions provide additional direction and respond to the needs of the community.

1.2 Principals for Budget Planning

The City provides a wide variety of services to the residents of the community. It is in the power of the City Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community (City Charter Article II, Section 5 (c)).

In 2005 the City Council, on recommendation from the City manager, endorsed the Budgeting for Outcomes budget process. At a high level, the budgeting for outcomes methodology can be summarized as:

1. *Determine how much money is available.* The budget should be built on expected revenues. This would include base revenues, any new revenue sources, and the potential use of fund balance.
2. *Prioritize results.* The results or outcomes that matter most to citizens should be defined. Elected leaders should determine what programs are most important to their constituents.
3. *Allocate resources among high priority results.* The allocations should be made in a fair and objective manner.
4. *Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.*
5. *Budget available dollars to the most significant programs and activities.* The objective is to maximize the benefit of the available resources.
6. *Set measures of annual progress, monitor, and close the feedback loop.* These measures should spell out the expected results and outcomes and how they will be measured.
7. *Check what actually happened.* This involves using performance measures to compare actual versus budgeted results.
8. *Communicate performance results. Internal and external stakeholders should be informed of the results in an understandable format.*

At that time, the City Council also identified the key outcomes it believed should be used in the new budget process. In addition, the 2005-2007 Policy Agenda sets forth the implementation and continued improvement of the collaborative budget process, aligning spending with desired outcomes.

In 2012, the City Council passed resolution 2012-076 promoting improved results through performance measures and data-driven decision making. In reference to the budget, an outcome-based performance measurement system will help ensure that available resources are used to achieve excellent results at low cost to the taxpayers and will enhance the citizen's understanding of the City and the services it provides.

1.3 Scope

A. Comprehensiveness

The proposed budget shall provide a complete financial plan for each fund of the city and shall include appropriate financial statements for each type of fund showing comparative figures for the last completed fiscal year, comparative figures for the current year, and the City Manager's recommendations for the ensuing budget term (City Charter Article V, Part 1, Section 2). In addition, the City of Fort Collins Budget Document may include items such

as:

- 1) Statement of organization-wide strategic goals.
- 2) A description of the budget process, including a timeline.
- 3) A Glossary of Budget Terms.
- 4) A City of Fort Collins organizational chart.
- 5) Letter from the City Manager.
- 6) Budget Overview which may include:
 - a) The economic outlook;
 - b) Revenue assumptions;
 - c) Summary of use of reserves;
 - d) Budget priorities and highlights.
- 7) Copy of signed appropriation ordinance and a schedule of 2nd year proposed appropriations.
- 8) Revenue, expense and changes in fund balance summaries.
- 9) Summary of employee full-time equivalent staffing by service area and department.
- 10) A section for each of the key strategic Outcomes, which may include:
 - a) Information indicating how the Offers in the Outcome are funded, by fund;
 - b) Major key purchases;
 - c) Major enhancements purchased;
 - d) Detailed listing of all offers funded and unfunded;
 - e) Strategic objectives of the Outcome.
- 11) Fund Statements.
- 12) Overview of debt position.
- 13) Current Capital Improvement Plan.
- 14) Summary of changes to user fees.
- 15) Summary of property tax mill levy and assessments.

The annual appropriation ordinance shall also include the levy in mills, as fixed by the Council, upon each dollar of the assessed valuation of all taxable property within the city, such levy representing the amount of taxes for city purposes necessary to provide, during the ensuing fiscal year, for all properly authorized expenditures to be incurred by the city, including interest and principal of general obligation bonds. If the Council fails in any year to make said tax levy as above provided, then the rate last fixed shall be the levy fixed for the ensuing fiscal year and the Financial Officer shall so certify (City Charter Article V, Part 1, section 5).

B. Budget Form

The City of Fort Collins uses the Budgeting For Outcomes model to create the City budget. A new budget is designed from the ground up based on the results desired in each of the Outcomes defined by the City. The BFO budget-building process includes four steps:

- 1) Determine how much revenue will be available (the price people pay);

- 2) Determine the priorities of the City and its citizens and the results to be achieved;
- 3) Allocate the revenue needed to achieve the desired results;
- 4) Determine which budget items will best produce the desired results at the price allocated.

C. Basis of Budgeting

All budgetary procedures conform to state regulations and to generally accepted accounting principles. The basis or principle used for budgeting is the same as that used for accounting, with a few exceptions, and varies according to the fund type.

Governmental Funds use the modified-accrual basis of accounting. This means that revenues are recognized when they are earned, measurable and available. Expenditures are recognized in the period that liabilities are due and payable. The budgetary basis is the same and is used in the General Fund, Special Revenue and Debt Service Funds, and Capital Project Funds.

Proprietary and Fiduciary Funds use the full accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when liabilities are incurred. However, the budgetary basis in these funds is primarily based on the modified-accrual approach. Instead of authorizing budget for depreciation of capital assets, the budget measures and appropriates cash outflows for capital acquisition and construction, which is a modified-accrual approach. In full accrual based accounting debt proceeds are recorded as liabilities rather than a revenue (funding source). For these reasons a reconciliation and adjustment is made on these fund statements to show the difference between the budgetary basis and the accounting basis.

D. Budget Calendar

The fiscal and accounting year shall be the same as the calendar year. "Budget term" shall mean the fiscal year(s) for which any budget is adopted and in which it is to be administered. Council shall set by ordinance the term for which it shall adopt budgets in accordance with this Article (City Charter Article V, Part 1, section 1).

On or before the first Monday in September, commencing in 2010 and every other year thereafter, the City Manager shall file with the City Clerk a proposed budget for the City for the ensuing *two-year term* (City Charter Article V, Part 1, section 2). The Council shall, within ten (10) days after the filing of said proposed budget with the City Clerk, set a time certain for public hearing and cause notice of such public hearing to be given by publication. At the hearing, all persons may appear and comment on any or all items and estimates in the proposed budget. Upon completion of the public hearing the Council may revise the budget estimates (City Charter Article V, Part 1, section 3).

After said public hearing and before the last day of November preceding the budget term, the Council shall adopt the budget for the ensuing term. The adoption of the budget shall be by ordinance. Before the last day of November of each fiscal year, the Council shall appropriate such sums of money as it deems necessary to defray all expenditures of the city during the ensuing fiscal year. The appropriation of funds shall be accomplished by passage of the annual appropriation ordinance. Such appropriation of funds shall be based upon the budget as approved by the Council but need not be itemized further than by fund with the exception of capital projects and federal or state grants which shall be summarized by individual project or grant (City Charter Article V, Part 1, section 4).

Appropriations for each year of the two-year budget will be approved by the City Council annually. Appropriations for the 2nd year of the biannual budget are adopted during the budget revision process. That process allows for adjustments to the originally adopted biennial budget that address new Council priorities or support changing needs based on economic conditions. The City Manager may present any budget adjustment recommendations to the City Council in Work Sessions and then Council may amend the budget and, as required by the State and City Charter, appropriate or authorize expenditures for the coming fiscal year.

1.4 Roles and Responsibilities

All powers of the city and the determination of all matters of policy shall be vested in the Council except as otherwise provided by the Charter. Without limitation of the foregoing, the Council shall have power to adopt the budget of the city.

The City Manager shall be responsible to the Council for the proper administration of all affairs of the City and to that end shall have power and be required to prepare the budget and submit it to the Council and be responsible for its administration after adoption.

The City Manager and Chief Financial Officer, along with the other executive directors, known as the Budget Lead Team (BLT), develop the guidelines, consistent with the policies, to be used for budget preparation. During the development of the budget, various department and division representatives may be called upon to provide their expertise.

From April through June, City staff from all departments and divisions prepares the Offers (budget requests) for inclusion in the budget.

1.5 Budgeting Control System

No appropriation shall be made by the Council which exceeds the revenues, reserves or other funds anticipated or available at the time of the appropriation, except for emergency expenses incurred by reason of a casualty, accident or unforeseen contingency arising after the passage of the annual appropriation ordinance (City Charter Article V, Part I, Section 8

(a)).

Control of expenditures is exercised at the fund level. Fund managers are responsible for all expenditures made against appropriations within their fund and can allocate available resources within the fund.

All appropriations unexpended or unencumbered at the end of the fiscal year *shall lapse* to the applicable general or special fund, except for:

- appropriations for capital projects which shall not lapse until the completion of the capital project; and
- federal or state grants which shall not lapse until the expiration of the federal or state grant (City Charter Article V, Part I, Section 11).

A. Budget Transfers

Between Funds or Capital Projects

During the fiscal year, the Council may, by ordinance, upon the recommendation of the City Manager, transfer any unexpended and unencumbered appropriated amount or portion thereof from one fund or capital project account to another fund or capital project account provided that:

- 1) the purpose for which the transferred funds are to be expended remains unchanged;
- 2) the purpose for which the funds were initially appropriated no longer exists; or
- 3) the proposed transfer is from a fund or capital project account in which the amount appropriated exceeds the amount needed to accomplish the purpose specified in the appropriation ordinance (City Charter Article V, Part I, Section 10 (b)).

Within a Fund

Budget control is maintained at the departmental level. The Chief Financial Officer Manager has the authority to approve departmental expenses greater than budget so long as expenses are less than budget within a fund. In no case may the total expenditures of a particular fund exceed that which is appropriated by the City Council (City Charter Article V, Part I, Section 10 (a)).

B. Applicable Amendments to the Budget

Budget Increases

There generally are four opportunities during the fiscal year for supplemental additions to the current year annual appropriation approved by Council:

- 1) The first is through the encumbrance carry-forward process whereby approved purchase orders that cannot be executed prior to the end of the fiscal year will have available budget carried forward into the new year.

- 2) The second is usually adopted in March/April to re-appropriate funds from the previous year's ending balance for projects or obligations that were approved but not completed during that year.
- 3) The third opportunity in the 2nd half of the year is used to fine-tune (clean-up) the current fiscal year for previously unforeseen events. In addition, if revenue is received during the fiscal year from a source that was not anticipated at the time of budget adoption or appropriation for the fiscal year, such as grants or implementation of a new fee, Council may appropriate that unanticipated revenue for expenditure when received anytime during the year.
- 4) Lastly, the Council, upon recommendation of the City Manager, may make supplemental appropriations by ordinance at any time during the fiscal year; provided, however, that the total amount of such supplemental appropriations, in combination with all previous appropriations for that fiscal year, shall not exceed the then current estimate of actual and anticipated revenues to be received by the city during the fiscal year. This provision shall not prevent the Council from appropriating by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated (City Charter Article V, Part I, Section 9).

Budget Decreases/Frozen Appropriations

The budget may be decreased below adopted appropriations during the fiscal year due to changes in service demand, changes in economic conditions, and/or changes in Council goals. Each service area is responsible for developing a plan to reduce appropriations, which will be ready for implementation should the need arise. If the City Manager directs budget reductions, Council will be informed and the appropriations will be "set aside" through administrative action. While the appropriation amount is not changed, expenditures shall not exceed the reduced amount recommended by the City Manager.

1.6 Balanced Budget Definition

All funds are required to balance. As such, total anticipated revenues must equal the sum of budgeted expenditures for each fund. Revenues are derived from two sources: current revenue charges and unallocated reserves carried forward from prior years.

Fund Balance Minimums

Issue Date: April 15,
2008

Version: 2

Issued by: City Council

Objective:

To set minimum fund balances as to mitigate risk, maintain good standing with rating agencies, and ensure cash is available when revenue is unavailable. The policy sets minimum fund balances, not targets or maximum balances. Each fund should be evaluated by staff to determine the appropriateness of maintaining fund balances above the minimums set in this policy. Contingencies for severe weather, prolonged drought, and anticipated capital spending should be considered independently from this policy.

Applicability:

Funds—This policy applies to all City funds. It does not apply to URA, DDA, PFA and Library.

Authorized by:

City Council Resolution 1994-174 and 2008-038.

5.1 Governmental Funds and Fund Balances

To set minimum fund balances so as to mitigate risks, maintain good standing with rating agencies, and ensure cash is available when revenue is unavailable. The policy is sets minimum fund balances, not targets or maximum balances. Each fund should be evaluated by staff to determine the appropriateness of maintaining fund balances above the minimums set in this policy. Contingencies for severe weather, prolonged drought, and anticipated capital spending should be considered independently from this policy.

The Equity on balance sheet of a governmental fund is called Fund Balance. The current classifications of Fund Balance in governmental funds are primarily based on the origin of the constraints. The following categories are in decreasing order of constraints.

Non-Spendable	Permanent endowments or assets in a non-liquid form
Restricted	Involve a third party: State Legislation or Contractual Agreements
Committed	Set by formal action of the City Council
Assigned	By staff, and/or residual balances in a Special Revenue Fund

Unassigned Remaining balances in the General Fund

Minimums outlined in section 5.2 relate only to **Assigned and Unassigned** balances.

5.2 Proprietary Fund and Working Capital

Internal Service Funds and Enterprise Funds are accounted for nearly identical to the private sector. The balance sheets include long term assets and long term liabilities. The resulting Equity section on their balance sheet, called Net Position, is not a good measure of spendable financial resources. To get to spendable financial resources, a common calculation is to take Current Assets and subtract Current Liabilities, with the net result called Working Capital.

To further refine, for purposes of this policy, certain required restrictions are further subtracted and result in **Available Working Capital**. Some examples of required restrictions are unspent monies for Art in Public Places, Water Rights, and existing appropriations for capital projects. The minimums outlined in section 5.5 relate to Available Working Capital.

5.3 Minimum Balances

The following Minimum Balances refers to Assigned and Unassigned Fund Balances in governmental funds and Available Working Capital in the Internal Service Funds and Enterprise Funds.

A. General Fund

60 Day Liquidity Goal - The Commitment 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.

Important note – the 60 Day Liquidity Goal is in addition to the Restricted Balance required by Article X, Section 20 of the State Constitution. This reserve must equal 3% of non-exempt revenue and can only be used for declared emergencies. Fiscal emergencies are specifically excluded by the State Constitution as qualifying use of this reserve.

B. Special Revenue Funds

No minimum balance is required.

C. Debt Service Funds

No minimum balance is required.

D. Capital Project Funds

No minimum balance is required.

E. Enterprise Funds

Enterprise funds focus on working capital rather than fund balance.

Enterprise Funds shall maintain a minimum Available Working Capital equal to 25% of Operating Expenses, less Depreciation. In the case of L&P, operating expenses will include purchased renewable energy for resale but will not include regular purchased power for resale (i.e. Platte River Power Authority).

Important note – The Water Fund holds a balance for Restricted Water Rights. The balance equals the amount of cash in-lieu-of water rights payments and raw water surcharges less any expenses for acquiring water rights and water storage;

The enterprises funds should also be accumulating available working capital above these minimums for the purposes of funding future capital projects.

F. Internal Service Funds

Each fund is a unique operation and will maintain a minimum Available Working Capital as follows:

601	Equipment Fund	8.3%	Of annual operating expenses, excluding depreciation
602	Self-Insurance Fund	25.0%	Of annual operating expenses
603	Data & Communications Fund	0.0%	N/A
604	Benefits Fund	30.0%	Of annual medical and dental expenses
605	Utility Customer Service Fund	0.0%	N/A

5.4 Below Minimum

When circumstances result in balances below the minimum, staff should develop a plan to restore minimums fund balances and present it to Council Finance Committee.

Definitions

Non Spendable Fund Balances: *Applicable to governmental funds. Permanent endowments or assets in a non-liquid form such as long term inter-agency loans.*

Restricted Fund Balances: *Applicable to governmental funds. Involve a third party such as State Legislative requirements, voter ballot language, or the Contractual Agreements with parties external to the City.*

Committed Fund Balances: *Applicable to governmental funds. Involve a of formal action by the City Council. An example is traffic calming revenues are required to be spent on traffic calming activities. Any unspent monies at end of year are classified as Committed to Traffic Calming in the General Fund.*

Assigned Fund Balances: *Are applicable to governmental funds. Assignments can be made by senior management. They represent the intent to use the monies for a specific purpose. An example of this it this the one time Harmony Road monies transferred by the State to the City. Although required to be used on Harmony Road, staff intends to use the monies only on Harmony Road improvements. These monies are considered when measuring compliance with minimum fund balances.*

Unassigned Fund Balances: *Are applicable only to the General Fund. These monies are considered when measuring compliance with minimum fund balances.*

Working Capital: *Is a term applicable to Internal Service and Enterprise Funds. It is the difference between Current Assets and Current Liabilities. Not all Working Capital is available. Available Working Capital does not include Restrictions for debt, Art in Public Places, approved capital appropriations, and other restrictions.*

Liquidity: *Assets range from cash to land. The more easily and quickly an asset can be converted to cash determines its relative liquidity.*

Reserves: *A legacy term that previously referred to fund balances, or fund balances set aside for a specific purpose. It is no longer used on financial statements.*

Fund Balance: *Is a term applicable to Governmental Funds. Fund balance or Equity is the difference between Assets and Liabilities. Since governmental funds do not have long term assets and long term debt on their balance sheet, fund balance is similar and approximates working capital in the private sector and enterprise funds.*

Getting Help

Please contact the Controller with any questions at 970.221.6772.