



## **City of Indianola Financial Policy**

Adopted July 5, 2016

Amended September 18, 2017

### **Section 1- General Policy**

It is the expectation and the general understanding of the City Council and the citizens of Indianola that the City conducts its financial affairs in a thoughtful and prudent manner. The following policies provide the framework within which the City conducts its financial affairs. The policies are divided into the following categories: Revenue Policies, Reserves and Contingencies, Operating Expenditure Policies, Capital Improvements Planning, Debt Management, Financial Reporting, and Investment Policies. Most of these policies represent long-standing principles, traditions, and practices which have guided the City in the past and have helped maintain financial stability. There may be times in which the City Council deviates from policy based on sound decisions and public interest. These deviations will be noted in the City Council minutes.

### **Section 2 - Revenue Policies**

The City of Indianola revenue policies are intended to provide guidelines for determining the revenues and revenue sources necessary to provide basic municipal services to the community. It is the City's goal to create and maintain a diversified, yet stable, revenue system to protect it from possible short-term fluctuations in any of its various revenue sources. An integral factor in the City's ability to maintain a strong revenue supply is the diversity of its tax base and the health of the area economy. Therefore, the City resolutely encourages economic development through the implementation of financial policies that create a favorable tax climate, while meeting service demands of businesses and residents.

## General Revenue Policies

1. A diversified, yet stable, revenue system will be utilized by the City to protect it from possible short-term fluctuations in any of its revenue sources.
2. In situations in which the City has determined that a fee may be a more appropriate method of funding a government program or service than property taxes, the City may explore the possibility of using fees instead of property taxes as the appropriate revenue source to fund the program or service. As much as practical fees should be established at a level that supports the entire cost of providing the program or service.
3. Through community and economic development, a broader tax base will be pursued to increase tax revenue and help reduce annual fluctuation in the property tax rate.
4. Revenue projections should be developed on an annual basis. Existing and potential revenue sources should be reviewed annually.

## **Property Taxes**

1. The City's total property tax levy rate and tax revenues shall be reviewed annually and evaluated taking into consideration current and forecasted economic conditions, proposed service level changes, State and Federal mandates, changes in the property tax rollback, amendments to the property tax law, and any other factors that affect the City's ability to provide basic City services or maintain sufficient cash reserves.
2. Stability and consistency in the property tax levy rate from one year to the next is desired. Adjustments to the levy are appropriate and may be made when tax revenues are projected to fall short. If revenues are expected to exceed the funding for basic services, the city council will review available options, which may include, but are not limited to infrastructure improvements, equipment or economic development projects.

## **Urban Renewal - Tax Increment Financing Policy**

### Purpose

The City creates urban renewal districts to:

1. Enhance areas in the city for the purpose of stimulating private investment in commercial, industrial, residential development/redevelopment and investment in public facilities through public action and commitments.
2. Increase commercial, industrial development, residential redevelopment and investment in public facilities in the City which will improve the economic and social environment of the community and sustain a desired balance between the non-residential and residential tax revenues.

3. Provide adequate public infrastructure of sanitary sewer, storm water management, potable water, streets, and pedestrian walkways to ensure the public health, safety and welfare.
4. Provide assistance and economic incentives for commercial, industrial development and residential redevelopment which may not otherwise occur without such assistance and incentives.

### Guidelines

The City shall adhere to Chapter 403 of the Code of Iowa, in the creation of urban renewal plans and subsequent implementation of those plans. The powers granted in this chapter constitute the performance of essential public purposes for the State of Iowa and the City of Indianola, Iowa. The powers conferred by this chapter are for public uses and purposes for which public money may be expended and for which the power of eminent domain and police power may be exercised; and that the necessity in the public interest for these provisions is declared as a matter of legislative determination.

The assessed value of property within each urban renewal district, which is subject to a division of revenue from taxation - tax increment financing (TIF), is determined by the Warren County Assessor each year.

The City uses TIF to leverage economic activity, offset taxpayer burden, build public improvements and finance public investment in infrastructure deemed necessary for community growth.

### Process

1. The amount of value reservation required for the next fiscal year is due annually by December 1<sup>st</sup>. And, upon written request from a taxing jurisdiction, meet and confer with that jurisdiction on the intended reservation.
2. Taxable valuation reservation will be based upon the debt and contractual obligations certified with the Warren County Auditor.
3. Prepare and distribute exhibits, including formulas and calculations of TIF dollars.

### Restrictions

1. Distribution of Incremental Property Taxes The City of Indianola attempts to release to all taxing jurisdictions any additional valuation in the TIF districts when the funds generated by the valuation exceed the amount needed to retire the annual TIF debt in that district or anticipated for future debt.
2. Sunsets The City establishes sunset dates for all TIF districts as provided in Chapter 403.17(10), Code of Iowa, as follows: in an urban renewal area designated an economic development area in which no part contains slum

or blighted conditions, the plan shall be limited to twenty years from the calendar year following the calendar year in which the city first certifies to the county auditor the amount of any loans, advances, indebtedness, or bonds which qualify for payment from the division of revenue provided in the Code of Iowa, Chapter 403.19.

3. Powers of Municipality The City shall have all the powers necessary or convenient to carry out and effectuate the purposes and provisions of Chapter 403.6 and the additional powers granted in Chapter 403.12 of the Code of Iowa.
4. Fluctuation/Reserves Tax increment reserves will be established to help offset major fluctuations in debt reservation requirements. Funds held in reserves will be specifically identified and held for a future debt or contractual obligation.

### **Municipal Enterprises**

1. User charges and fees should be set at a level related to the cost of providing services. Determination of such costs should include the costs of providing the actual service as well as all other related expenses, such as maintenance and replacement of equipment, personnel costs, and all other operating and administrative costs.

At least annually or user fees and charges should be reviewed. When necessary, user fees and charges should be re-calculated and revised to reflect the actual cost of activities.

### **Section 3 - Reserves and Contingencies**

The maintenance of adequate cash reserves provides the City with flexibility and security and is an important factor considered by rating agencies and the underwriting community when reviewing City debt issuance. Along with maintaining the City's credit worthiness, such cash reserves provide the means to handle economic uncertainties, local disasters and other unanticipated financial hardships, as well as, meeting debt cash flow requirements. In addition to the designations noted below, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years that are carried forward into the new year, debt service reserve requirements, reserves for encumbrances and other reserves or designations required by contractual obligations or generally accepted accounting principles. Deviation from the following general policies by Council may occur based on sound decisions and public interest. When such deviations are made, it shall be specifically noted and included within Council minutes.

### **General Policies**

1. General Fund cash reserves (fund balance) should be maintained at a level sufficient to provide funding for general governmental operations. It is the City's goal to have a unrestricted minimum balance at fiscal year end of not less than 25% of general fund expenditures. However, the balance may be

higher, if deemed prudent, due to the uncertainty of future revenues or anticipated expenditures.

2. Enterprise Fund unrestricted cash reserves (fund balances) should be maintained at a level sufficient to provide funding to meet 100% of the fiscal year expenditures.
3. Road Use Tax-. It is the City's goal to have an unrestricted minimum balance at fiscal year end of not less than 50% of Road Use Tax fund operating expenditures. The balance may be higher, if deemed prudent, due to the anticipated capital expenditures.
4. Storm sewer Utility- It is the City's goal to have an unrestricted minimum balance at fiscal year end of not less than 25% of Storm sewer Utility fund expenditures, or \$100,000 whichever is greater. The balance may be higher, if deemed prudent, due to the anticipated capital expenditures.
5. Cash reserves should not be used to finance routine operating expenses, which exceed budget levels. Routine operating expenses shall be defined as reasonably anticipated reoccurring annual expenditures.
6. Cash reserves may be used to finance capital improvement projects only when cash reserves have been specifically identified in the budget to finance such project, and do not bring the fund balance below the required level.
7. Excess cash reserves may be used to balance revenues and expenditures as long as the minimum cash reserve requirements of this policy are met, provided that said cash reserves may only be used to offset non-reoccurring expenditures.
8. Revenues will equal or exceed expenditures for each budget year unless there are funds available in excess of the cash reserves requirements of this policy.
9. The City's annual budget is considered balanced if the cash reserve requirements, the working capital requirements and the revenue and expenditure requirements of this policy have been met.

## **Working Capital**

1. The City will maintain sufficient cash reserves in operating funds for working capital so that short term cash flow financing is not required. The cash reserve will be no less than 25% of the next year's operating budgeted expenditures, the same level as required for the general fund. Operating funds are defined as the general, road use tax, employee benefits and enterprise funds. The cash reserve may be higher than 25% if deemed prudent due to the uncertainty of future revenues or anticipated expenditures.

2. The use of short-term borrowing, such as with tax anticipation notes, in order to meet the preceding working capital requirements should be avoided.

### **Equipment Replacement Reserve Fund**

The City may establish and maintain an equipment replacement reserve fund to provide for the scheduled purchase of vehicles and equipment, and will consider annually appropriating funds to it to provide for the timely upgrading and replacement of vehicles and equipment. The amount added to this fund by annual appropriation should be the amount required to maintain the fund at the approved level after credit for the sale of surplus equipment and interest earned by the fund. It is the City's intent that the reserve fund replaces the City's need to borrow funds for vehicle and equipment acquisitions. A minimum fund balance of 5% of the current year expenditures will be maintained to ensure proper funding, and to accommodate price volatility.

### **Capital Project and Vehicle & Equipment Reserve Funds**

The Council may designate specific fund balance levels for future development of capital projects that individually do not exceed \$500,000 in total project costs and that do not require bond financing. In order to help maintain the fund at approved levels, the Council may annually transfer to the fund any balance from operating funds in excess of the cash reserve requirements within this policy.

### **GASB 54**

GASB 54 establishes the following five fund balance classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. Fund Balance classifications assigned, unassigned, and committed are considered "unrestricted" fund balances. The order of spending will be as follows: restricted, committed, assigned and unassigned. Restricted funds shall be spent according to the purpose for which they were received. Unassigned funds shall always be spent after Committed and Assigned funds have been exhausted. The City Administrator and/or the Finance Director are authorized to assign fund balances according to specific factors involved. The City Council will have authority to commit fund balance.

### **Section 4 – Operating Expenditure Policies**

Operating expenditures must meet the City's requirements to provide services within the framework of available revenues. Fiscal control and long range financial planning is necessary to guarantee that the City's current and future finances will remain sound. The following operating expenditure policies guide the evaluation and control of the City's appropriations and expenditures.

## **General Policies**

1. Expenditure projections will be developed on an annual basis, and will be reviewed quarterly. Projections should include estimates of anticipated operating costs for programmed capital improvement projects, and for equipment and capital facilities replacement and maintenance schedules.
2. Current expenditures should be paid, in accordance of Council directives, with current revenues or excess cash reserves.
3. Current expenditures should not be balanced by postponing needed expenditures, accruing future revenues, issuing short term debt, or paying for routine operating costs out of minimum cash reserves.
4. The operating budget should provide for adequate maintenance of fixed assets and equipment and provide for their orderly replacement.
5. The City will encourage the provision of services through the private sector and other public agencies whenever and wherever greater efficiency and effectiveness can be achieved.
6. The City shall consider annually funding request from local service organizations. These funding requests are due, in writing, annually to the council, by December 1, for consideration in upcoming budget. Requests should include amounts requested, as well as planned usage of the funds. These community betterment funds shall only be made with operating funds in excess of cash reserve targets.
7. The City will maintain risk management and safety programs to reduce costs and minimize losses.

## **Section 5 – Capital Improvements Planning**

Policies for the capital improvements program are intended to encourage planning for future growth and infrastructure repair within the framework of the City's financial policies.

## **General Policies**

1. The City should develop and annually update a five-year capital improvements program (CIP). This program should identify future capital project expenditures made necessary by anticipated changes in population, infrastructure replacement and extension, economic base and/or land use.
2. The operating and maintenance cost of a proposed capital improvement shall be calculated to determine a "true cost" of each improvement and assist in programming of future overall revenue requirements of the City.
3. The capital improvements plan will include the costs, timing and sources of funding and the estimated impact of future revenue requirements for each project. These calculations shall reflect adjustments for inflation.

4. The capital improvements plan should maintain the City's assets at a level adequate to protect the City's capital investments, minimize future maintenance and replacement costs, and provide for an adequate level of service.
5. The City's annual capital improvements budget should be based on the five-year CIP. The budget will include final calculations of revenue sources and related impacts on future availability of revenue for additional projects.
6. The annual expenditures identified in the CIP should be fully funded from financial resources that are anticipated to be current and available.
7. Grants and similar forms of intergovernmental assistance should be used to finance only those projects identified in the CIP or other planning documents as the community needs.
8. A fiscal impact analysis should be performed on all projects for which the City's financial participation is requested by the private sector. This analysis should identify anticipated direct and indirect public costs and revenues associated with the proposed project.

## **Section 6 - Debt Management Policies**

The issuance of debt is a necessity for the financing of many major capital improvements. Determining the method and timing for financing is subject to numerous considerations. The City's debt policies are intended to encourage conservative debt management while maintaining the flexibility to use the various financing mechanisms that are available to the City.

The City's overall tax levy must be reflective of the impact of debt issuance. Alternative revenue sources will be used when practicable to maintain an overall tax rate consistent with the general philosophy of municipal service determined by the City Council.

The cost of financing through the issuance of debt is also affected by the strength of the City's financial position. Bond ratings and investor's interest are influenced by the City's debt management policies, as well as, by the overall financial policies of the City. It is the City's goal to maintain debt management policies that keep outstanding debt within manageable levels and which maintains the City's flexibility to issue debt in the case of unusual circumstances of those beyond the City's control.

### **General Policies**

1. Long-term borrowing shall be limited to capital improvements projects that cannot be financed from current revenues, have estimated life span of greater than the term of borrowing and generally to capital projects with an aggregate project cost of \$250,000 or greater. Principal and interest will be scheduled to be within the revenues available for debt service. Long-term debt shall not be used for current operations.

2. Any capital improvement projects or capital equipment financed through bonds should be financed for a period not to exceed the expected useful life of the asset being financed.
3. Total outstanding debt, including overlapping debt, will be considered when planning additional debt issuance.
4. Consideration should be made for the City's share of utility projects, including the cost of over-sizing of water, sewer and storm water mains, -being financed with current utility funds and other revenues when funds are appropriate and available.
5. The use of general obligation bonds for projects does not dismiss the potential of pro rata payment for debt service by specifically benefited funds such as water, sewer, storm water, or road use tax.
6. The City will consider refunding outstanding debt in order to achieve interest cost savings, restructure principal and/or eliminate burdensome covenants with bondholders. Refundings undertaken to achieve interest cost savings in advance of their call date should strive to achieve a new present value savings benefit equal to a minimum of 3% of the present value of the refunded par amount.
7. Financing requirements will be reviewed annually. The timing for financing will be based upon the City's need for funds, market conditions and debt management policies.
8. The City will follow a policy of full disclosure on every financial report and bond prospectus with bond rating agencies about its financial condition.
9. The City will follow applicable laws, regulations and bond covenants relative to arbitrage and rebate compliance requirements.

### **Debt Limitations**

1. The average maturity of general obligation debt should not exceed the useful life of the asset being financed and/or state law limitations.
2. Bond issues should be structured so that the debt service schedule is within the revenues available for debt service.
3. Total general obligation indebtedness should not exceed 80% of the City's statutory debt limit.
4. Self imposed debt limitations may not take into account debt issued as a consequence of voter approved bond referendums.

## **Section 7 - Financial Reporting and Accounting**

### **General Policies**

1. The City will maintain a high standard of accounting practices. To that end, the City will continue to use the latest edition of *Governmental Accounting, Auditing, and Financial Reporting (GAAFR)* as its source of generally accepted accounting principles (GAAP).
2. The City's relationship with its independent public accounting firm will be reviewed at a minimum every five years.
3. The City will maintain its budget and accounting system on a cash basis which will be the basis for all interim, internal, and state reporting.
4. The City will adhere to a policy of full and open public disclosure of all financial activity and information.

### **Reports**

1. The City will maintain a budgetary control system and will produce interim financial reports that measure actual revenues and expenditures compared to budgeted revenues and expenditures.
  - (a) Monthly and annual reports should present a summary of financial information by major fund and activity type.
  - (b) Monthly reports should be provided presenting actual cash position and investment performance.
  - (c) Each year, the City shall retain either an independent public accounting firm or the State Auditor to perform the annual audit and will make the audit available to all interested parties.
  - (d) The City will comply with all federal and state audit and review regulations, including OMB A-133 single audit and Single Point of Contact (SPOC) review requirements.

## **Section 8 – Investment Policies**

### **Scope of Investment Policy**

The Investment Policy of the City of Indianola shall be governed by Iowa Code Chapters 12B and 12C and shall apply to all operating funds, bond proceeds and other funds and all investment transactions involving operating funds, bond proceeds and other funds accounted for in the financial statements of the City of Indianola.

The investment of bond funds or sinking funds shall also comply with the provisions of any bond resolutions.

This written investment policy, required by Iowa Code Section 12B.10B, shall be delivered to all the following:

1. The governing body or officer of the public entity to which this policy applies.
2. All depository institutions or fiduciaries for public funds of the public entity.
3. The auditor of the public entity.
4. Every fiduciary or third party assisting with or facilitating investments for the public entity.

### **Delegation of Authority**

In accordance with Section 12B.10, the responsibility for conducting investment transactions resides with the Treasurer of the City of Indianola. For purposes of this Investment Policy the Finance Director is designated the Treasurer. Only the Treasurer and those authorized by resolution may invest public funds. A copy of any empowering resolution shall be attached to this Investment Policy.

All contracts or agreements with outside persons investing public funds, advising on the investment of public funds, directing the deposit or investment of public funds or acting in a fiduciary capacity for the City of Indianola shall require the outside person to notify in writing the Treasurer of the City of Indianola within thirty days of receipt of all communication from the Auditor of the outside person or any regulatory authority of the existence of a material weakness in the internal control structure of the outside person or regulatory orders or sanctions regarding the type of services being provided to the City of Indianola by the outside person.

The records of investment transactions made by or on behalf of the City of Indianola are public records and are the property of the City of Indianola whether in the custody of the City of Indianola or in the custody of a fiduciary or other third party.

The Treasurer shall establish a written system of internal controls and investment practices. The controls shall be designed to prevent the loss of public funds, to document those officers and employees of the City of Indianola responsible for elements of the investment process and to address the capability of investment management. The controls shall provide for receipt and review of the audited financial statement and related report on internal control structure of all outside persons performing any of the following for this public body.

1. Investment of public funds.
2. Advising on the investment of public funds.
3. Directing the deposit or investment of public funds.
4. Acting in a fiduciary capacity for this public body.

The Treasurer of the City of Indianola shall be bonded in the amount of \$300,000. The amount of this bond shall be reviewed annually to determine its appropriateness and will be amended by the City Council if deemed necessary.

## **Objectives of Investment Policy**

The primary objectives, in order of priority, of all investment activities involving the financial assets of the City of Indianola shall be the following:

1. Safety: Safety and preservation of principal in the overall portfolio.
2. Liquidity: Maintaining the necessary liquidity to match expected liabilities.
3. Return: Obtaining a reasonable return in compliance with Iowa Code Section 12C.6.

## **Prudence**

The Treasurer of the City of Indianola, when investing or depositing public funds, shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a person acting in a like capacity and familiar with such matters would use to attain the Section 8 investment objectives. This standard requires that when making investment decisions, the Treasurer shall consider the role that the investment or deposit plays within the portfolio of the assets of the City of Indianola and the investment objectives stated in Section 8.

When investing assets of the City of Indianola for a period longer than six months or in an amount greater than \$300,000 per investment, the Treasurer shall request competitive investment proposals for comparable credit and terms investment from a minimum of three investment providers.

## **Instruments Eligible for Investment**

Assets of the City of Indianola shall be invested in financial institutions properly declared by Resolution of the City Council of the City of Indianola. Deposits in any financial institution shall not exceed the amount stated in the Resolution. Assets of the City of Indianola may be invested in the following:

1. Demand Deposit Accounts (DDA)
2. Negotiable Orders of Withdrawal (NOW) Accounts
3. Certificates of Deposit.
4. Obligations of the United States Government, its agencies and instrumentalities.

## **Prohibited Investments and Investment Practices**

Assets of the City of Indianola shall not be invested in the following:

1. Reverse repurchase agreements.
2. Futures and options contracts.

Assets of the City of Indianola shall not be invested pursuant to the following investment practices:

1. Trading of securities for speculation or the realization of short-term trading gains.

2. Pursuant to a contract providing for the compensation of an agent or fiduciary based upon the performance of the invested assets.
3. If a fiduciary or other third party with custody of public investment transaction records of the City of Indianola fails to produce requested records when requested by this public body within a reasonable time, the City of Indianola shall make no new investment with or through the fiduciary or third party and shall not renew maturing investments with or through the fiduciary or third party.

### **Investment Limitations**

Operating Funds: Operating funds means those funds which are reasonably expected to be expended during a current budget year or within fifteen months of receipt. Operating funds must be identified and distinguished from all other funds available for investment. Operating funds may only be invested in investments which mature within three hundred ninety-seven (397) days or less.

Other than Operating Funds: The Treasurer may invest funds of the City of Indianola that are not identified as Operating Funds in investments with a maturity longer than three hundred ninety-seven (397) days. However, all investments of Project Funds and other non-operating funds shall have a maturity that is consistent with the needs and use as specified for these funds, and no maturity shall be longer than three (3) years for any funds unless specifically authorized by the City Council.

### **Safekeeping and Custody**

All invested assets of the City of Indianola involving the use of a public funds custodial agreement, as defined in Iowa Code Section 12B.10C, shall comply with all rules adopted and in accordance with the laws of the State of Iowa.

### **Ethics and Conflict of Interest**

The Treasurer and all officers, employees and committees of the City of Indianola involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.

### **Reporting**

The Treasurer shall submit monthly with the Bank Reconciliation a list of investments making up the current investment portfolio.