

Summary of Financial and Budget Policy Compliance

The City of Suffolk has established financial policies to ensure prudent financial practices and accountability of public funds managed by the City. The financial policies include guidelines for Revenues, Budget, Capital Improvements Planning, and Debt. A Finance Committee created by the Suffolk City Council meets on a regular basis to review and monitor compliance. As demonstrated in the attached copy of the City's financial policies and compliance summary, the City of Suffolk is achieving compliance with its financial policies. Highlights of each major compliance area include:

Revenues

- ✓ City fees and charges have been reviewed and updated in the FY 11 Operating and Capital Budget.
- ✓ Revenue collections are strong with collection rates between 96% to 99%.

Budget

- ✓ The FY 11 Operating and Capital Budget is balanced with current revenues supporting all current expenditures.
- ✓ A five year projection of revenues and expenditures is included in the FY 11 Operating and Capital Budget.
- ✓ The City has met the Undesignated General Fund balance policy goal of 12% of Governmental Fund Expenditures. The City's Undesignated General Fund balance is 13.1% of Governmental Fund Expenditures.
- ✓ The projected balance in the Risk Fund is anticipated to be sufficient to provide the required support in the FY 11 Operating and Capital Budget.

Capital Improvements Planning

- ✓ A 10 year Capital Improvements Plan has been prepared and adopted for use in the FY 11 budget year.
- ✓ The FY 11 Operating and Capital Budget includes 1.41% of General Fund departmental expenditures in cash funding in accordance with the five year FY 2012 escalation plan to achieve a 3% pay-as-you-go capital funding level.

Debt

- ✓ Debt as a percentage of assessed value is 2.09% for FY 11, below the 4% policy ceiling.
- ✓ Debt as a percentage of general government expenditures is 9.33% for FY 11, below the 10% policy ceiling.

CITY OF SUFFOLK



Financial Policies

Adopted: December 5, 2007

Revised: January 6, 2010

FY 11' Budget Status: Responses where appropriate for all compliance requirements for FY 11' are denoted in red.

**CITY OF SUFFOLK, VIRGINIA
FINANCIAL POLICIES**

POLICY PURPOSE

The City of Suffolk (the “City”) and its governing body, the City Council (the “Council”), is responsible to the City's citizens to carefully account for all public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public, including the provision and maintenance of facilities. The following financial policies and guidelines establish the framework for the City’s overall fiscal planning and management.

1.01 Policy Goals

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

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

1.02 Policy Implementation and Coordination

The City has established a Finance Committee that meets approximately monthly to collectively review financial matters of the City, including the monitoring of financial activity cash and investment management, and compliance with certain policies outlined herein. Members of the Finance Committee include those individuals stipulated by ordinance adopted by City Council.

1.03 Review and Revision

These policies will be reviewed for appropriateness and comparability with AAA rated jurisdictions every three years or more frequently if a need for review is identified.

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FINANCIAL POLICIES**

REVENUES

2.01 Revenue Diversification

The City will strive to maintain diversified and stable revenue streams to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services.

Current revenues will fund current expenditures and a diversified and stable revenue system will be maintained to protect programs.

***FY 11' Budget Status:** Local revenues are diversified and are projected at level receipt of FY 10'. Major revenue sources that are projected to experience significant changes from the prior year include: Real Estate (2% projected loss of \$1.5M), State Categorical Aid (projected loss of \$1,080,261), Personal Property (9% projected gain of \$1.2M) and an EMS Fee Adjustment to the Medicare approved rate (\$940,000 projected gain).*

2.02 Fees and Charges

All fees established by the City for licenses, permits, fines, services, applications and other miscellaneous charges shall be set to recover all or a portion of the City's expense in providing the attendant service. These fees shall be reviewed annually with the development of the annual operating budget.

***FY 11' Budget Status:** All city fees and charges are reviewed annually with revisions provided to recoup a fair portion of the City's expenses associated with the service provision. There are no significant fee additions for FY 11'. A recommended increase has been proposed for EMS billing to provide rates within the recommended Medicare rates.*

2.03 Revenue Collections

The City will strive to achieve an overall property tax collection rate of 100%.

***FY 11' Budget Status:** The City continues to maintain strong local collection rates ranging from 96% to 99% for local taxes and fees with collection rates documented annually in the Comprehensive Annual Financial Report.*

2.04 Use of Fund Balance

The City's General Fund equity balance will be utilized to provide sufficient working capital in anticipation of current budgeted revenues and to finance unforeseen emergencies without borrowing. The General Fund equity of the City (Undesignated Fund Balance) will not be used to finance current operations.

***FY 11' Budget Status:** The City budget has been balanced with current General Fund revenues supporting all current General Fund expenditures for FY 11'. A premium credit has been provided of \$3M from the City's Risk Fund from prior year excess premiums collected beyond claims*

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experienced. Additionally, the residual balance of excess contributions to the Debt Fund of \$344,000 has been provided as a credit to the General Fund for debt expenses in FY 11'.

2.05 Restricted Revenue

Restricted revenue (such as Medicaid or Asset Forfeiture funds) shall only be used for the purpose intended and in a fiscally responsible manner.

***FY 11' Budget Status:** The City budget utilizes restricted revenues strictly for the designated purpose and restricts all unspent balances available at year end for carryover to the following fiscal year for continued identified spending purposes.*

BUDGET

3.01 Balanced Budget

The provisions of the Code of Virginia shall control the preparation, consideration, adoption and execution of the budget of the City. In addition, the City Charter requires the budget to be balanced with planned expenditures equal to estimated revenues.

The City will annually adopt and execute a budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. The budget shall control the levy of taxes and the expenditure of money for all City purposes during the ensuing fiscal year. The City budget shall be balanced within all available operating revenues, including the fund balance, and adopted by the City Council.

***FY 11' Budget Status:** The FY 11' budget is balanced for all funds operated by the City denoting appropriate tax rates where applicable to sustain operations. Budget and tax rate ordinances have been appropriately prepared authorizing the appropriation of all required funds.*

3.02 Use of Current Revenues to Support Current Expenditures

Ongoing and stable revenues will be used to support ongoing operating costs.

***FY 11' Budget Status:** The budget is dependent on stable revenues and conservative revenue estimates to support operations.*

3.03 Use of One-time Revenue and One-time Expenditure Savings

The use of one-time revenues and one-time expenditure savings (excess cash balances) will be used for non-recurring expenditures.

***FY 11' Budget Status:** All one time revenues are designated to support one-time expenditures. In FY 11', the City will utilize the following credits to support one-time expenditures: \$344,000 from the Debt Fund Balance as a credit to the General Fund in support of annual debt payments that are*

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projected to decline \$612,336 in FY 12'. \$3,000,000 credit derived from excess contributions to the Risk Fund in the prior fiscal year to support the non-mandated annual OPEB retiree contribution.

3.04 Review of Fees and Charges

Fees established by the City for licenses, permits, fines, services, applications and other miscellaneous charges shall be set to recover all or a portion of the City's expense in providing the attendant service and reviewed annually with the development of the annual operating budget.

***FY 11' Budget Status:** All city fees and charges are reviewed annually with revisions provided to recoup a fair portion of the City's expenses associated with the service provision.*

3.05 Revenue and Expenditure Projections

The City will prepare and annually update a long range (5 year) financial forecast model utilizing trend indicators and projections of annual operating revenues, expenditures, capital improvements and related debt service and operating costs, and fund balance levels.

***FY 11' Budget Status:** A 5 year projection of revenues and expenditures has been prepared based on conservative assumptions, planned capital improvements and related debt service and operating costs noting projected fund balance levels and required real estate tax rate adjustments. This report is provided as an appendix to the budget.*

3.06 Budget Performance Monitoring

The Budget Department will maintain ongoing contact with the departmental fiscal officers during the process of the budget execution. Expenditure and revenue projections will be developed quarterly and reviewed with Departmental Directors, the Finance Committee of the City Council, the City Manager, and the City Council. The City Manager through the Budget and Finance Departments will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget.

***FY 11' Budget Status:** Quarterly revenue and expenditure projections have been provided beginning with FY 08' to Departmental Directors, the Finance Committee, the City Manager, and City Council noting positive results for all funds. All required budget adjustments have been reviewed and approved by the City Manager or designee to comply with budget requirements.*

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3.07 Maintenance of Capital Assets

The budget should provide sufficient funds for regular repair and maintenance of capital assets.

***FY 11' Budget Status:** The operating and capital budget provides adequate repair and maintenance funds to support City capital assets.*

3.08 Fund Balance Levels

The City will employ sound financial management principles to include the establishment of an undesignated fund balance sufficient to maintain required working capital and provide a reserve for unanticipated expenditures or emergencies, revenue shortfalls, and other non-recurring uses.

The ratio of Undesignated General Fund balance as a percentage of Budgeted Governmental Funds Expenditures (net of the General Fund Contribution to Schools, transfer to other Governmental Funds, and Capital Projects Fund Expenditures) plus budgeted expenditures in the School Operating and Food Service Funds indicates the ability of the City to cope with unexpected financial problems or emergencies. The larger the Undesignated General Fund balance, the greater the City's ability to cope with financial emergencies and fluctuations in revenue cycles. The City has established a target rate of 12% at the close of each fiscal year as computed on the upcoming budget year.

Once the undesignated general fund balance target is achieved by the City, it is intended to be maintained for the upcoming fiscal year from prior year surpluses and budgeted additions as available before any other needs are addressed. In the event Undesignated Fund Balance is required to be drawn below the 12% target rate due to an emergency (such as a natural disaster) or due to severe economic circumstances, the City will develop a plan to restore the Undesignated Fund Balance over the ensuing two to three years.

Compliance with fund balance policy will be reviewed and reported to City Council at least annually in conjunction with the development of the operating budget and with any significant budget amendments made during the fiscal year.

***FY 11' Budget Status:** The FY 10' undesignated General Fund balance is projected to exceed the targeted 12% by the close of the fiscal year at 13.1%.*

3.09 Self-Insurance Rate Stabilization Fund

The City will strive to maintain a rate stabilization fund for its insured risks in an amount equal to 20% of anticipated annual premium costs. This rate stabilization fund may be reduced or increased by management based on professional judgment and anticipated claims cost estimates.

***FY 11' Budget Status:** The projected balance in the Risk Fund at June 30, 2010 is anticipated to be sufficient to provide the required \$2,000,000 in rate stabilization funds to support the FY 11' budget.*