

Reader's Guide

This document contains the City of Rocky Mount's Proposed Budget for Fiscal Year 2023. This budget serves two purposes. First, it presents a clear picture of the services that the City provides and of the policy alternatives that are available. Second, it provides a financial and operating plan that conforms to the City's accounting system. This **Reader's Guide** has been added to make this document easier to read and understand.

Document Organization

The City's annual budget book is divided into the following sections: Budget Letter, Budget-in-Brief, Budget Overview, General Fund, Utility Funds, Other Funds, Capital Improvement Program and Appendix.

The **Budget Message** is the City Manager's introductory message to the City Council. This letter provides an overview of the budget and the recommendations contained therein. This letter provides an excellent summary of the budget and will assist the reader with an understanding of many of the key budget issues.

The **Budget in Brief** includes summaries of fund totals, comparisons of revenues and expenditures, and a summary of the city personnel.

The **Budget Development** section includes information helpful to understanding the City of Rocky Mount's Budget Development process, organization chart, financial policies and strategies, fund structure, and a review of Selected Revenues and Expenditures.

The remainder of the budget is organized by fund, an accounting term which simply means a balanced set of revenues and expenditures. For each fund, three years of financial information is included: actual figures from FY 2021; adopted, amended, and projected figures from FY 2022; and the FY 2023 Proposed Budget.

The **General Fund** section covers the City basic services such as police, fire, recreation, and public works, which are supported by property tax and other general-purpose revenues. Each department is shown separately and each section includes a

department overview with an organization chart, performance indicators, and summaries of expenditures and employees. Following each department summary is a division summary, which includes a division description, accomplishments, and new initiatives for the new year, a detailed budget and summary information including capital outlay.

The next section contains the City's **Utility Enterprise Funds**. An enterprise fund is a fund established to account for operations that are financed and operated in a manner similar to private business enterprises. Expenditures in these funds are financed primarily through user fees. The Enterprise Fund section includes the Electric, Gas, Water, Sewer, and Stormwater Funds. These funds are organized similarly to the General Fund with department overviews and more detailed information at the division level. The Capital Budget for each utility is included in its respective department.

The **Other Funds** section includes the following smaller funds: Powell Bill, E-911, General Capital, Canteen, Risk Management, and Communications Funds.

The **Capital Improvement Program** section provides a rundown of the City's active capital projects included in the Five-Year Capital Improvement Program (CIP) for FY 2023 to FY 2027, as well as information on revised allocations for the FY 2023 Capital Budget.

The **Appendix** contains supplemental information. An Ordinance will be prepared following initial deliberation with the City Council that constitutes the legal limit of spending for the various funds of the City.

Budget Development

The development of the City of Rocky Mount's budget takes place over a six-month period during which the Five-Year Capital Improvement Program (CIP) and the annual operating budget are prepared and submitted to the City Council. These two components are vital to the preparation of a budget that will fulfill the needs of the City.

Each year a calendar is designed to provide a framework within which the interaction necessary to formulate a sound budget occurs. At the same time, it ensures that the City will comply with all applicable State and Federal legal mandates.

Capital Improvement Program

The Capital Improvement Program (CIP) process begins in December when the departments formulate their capital project requests. The departments review their previously submitted and approved requests, revising and updating the project description, cost estimates and timing based on current information. Departments submit new projects, including cost estimates, scheduling and funding alternatives, for inclusion in the CIP.

During CIP preparation, staff determine itemized impact of projects on operating budgets in a recurring or non-recurring fashion. This can include increased revenue, operational savings, or increased expense. Departments acknowledge projects where operating impacts are not defined will have minimal impact on existing or projected resources upon their completion.

Concurrently, with the preparation of the CIP requests, the Budget Manager and Finance Director collect and analyze the financial information necessary to determine the resources available in the coming years. The Budget Manager is also available to aid departments' staff in their preparation of the CIP requests.

After the compilation of the CIP requests, the Finance Director, Budget Manager, Assistant City Managers and City Manager review the capital projects. Projects are reviewed relative to community needs and proposed funding. Projects

are evaluated in terms of their priority, urgency and benefit in relation to all other projects, with the current and projected fiscal resources in mind. This review, along with the knowledge of available funding, forms the basis of the programs recommended by the City Manager to the City Council. The decision on funding for capital projects is based on the merits of a particular project balanced with the availability of funding.

After deliberation and agreement by the City Council, the CIP is used in the development of the annual operating budget. The first year of the CIP provides guidelines for, and ultimately reflects the Capital Budget with the following four years becoming the Capital Improvement Program.

The Capital Budget is incorporated into the City Manager's recommended annual budget that is subsequently reviewed and adopted by the City Council. By agreeing to the Capital Budget, the City Council does not actually commit to expenditures or appropriations, even in the first year. The City Council, during its annual budget review and approval process in May and June, will approve those recommended capital projects it deems appropriate.

Annual Operating Budget

The City of Rocky Mount's formal operating budget process begins in February of each year. The budget preparation process provides an opportunity to examine operations, propose changes in current services, recommend revisions in organization and methods, and outline requirements for capital outlay items. This process commences with the completion of the Capital Improvement Program.

In February, the Budget Manager disseminates the Budget Development Manual. This manual contains all of the information necessary for the development of the operating budget. Included within the manual are financial guidelines, work plan instructions, example formats and the budget calendar and meetings schedule.

Budget Development

The Budget and Evaluation Manager works closely with City departments to assist with the formulation of their budget requests for the coming year. In addition to their financial requests, departments are asked to formulate work plans composed of accomplishments, initiatives and performance indicators.

Upon the completion of their requests, departments submit the budget package to their respective Assistant City Manager and the Budget Manager. Over the following weeks, the Budget Manager, Finance Director, Assistant City Manager and City Manager review budgets and estimated revenues and make necessary adjustments to achieve a balanced budget.

The City Council receives the recommended budget in May and reviews the recommendations. During these meetings, significant changes in the budget, additions or deletions will be highlighted

for the City Council. Finally, the City Council will hold a public hearing to solicit citizen input on the budget, its priorities and funding components, and adopt the final budget.

Budget Revisions

Periodically throughout the year, the budget may require changes. The City Manager may authorize any budget amendments from within any one fund. These budget transfers are reviewed by the Budget and Evaluation Manager and designated Assistant City Manager.

Amendments calling for transfers between two or more funds, the recognition of additional revenue or the appropriation of fund balance require the approval of the City Council. Changes such as these take place infrequently throughout the year.

CIP AND BUDGET SCHEDULE - FY 2023

October 11-15	Staff training in Performance Management
October 25	Distribution of CIP worksheets to departments
November 29	Department CIP requests due to Budget & Evaluation Manager
December 6-10	Initial CIP reviews with Budget & Evaluation Manager
December 13-31	CIP reviews for departments with Assistant City Managers and Budget & Evaluation Manager
January 10-21	CIP reviews for departments with City Manager, Assistant City Managers, Finance Director, and Budget & Evaluation Manager
January 21	Review Current Year Revenues/Expenditures
January 24-27	Staff training in Goal Setting
January 24-27	MUNIS & BUDMRS budget system training
January 28	Distribution of budget letter, calendar, and information packet to departments.
February 1	MUNIS & BUDMRS system worksheets opened and available
February 11	Department requests for position reclassifications due to Human Resources
February 11	Department requests for fee adjustments due to Budget Manager
March 7	All Departmental Budget Requests due to Budget & Evaluation Manager
March 14-18	Initial Budget reviews with Budget & Evaluation Manager
March 21-30	Budget reviews for departments with Assistant City Managers and Budget & Evaluation Manager
April 4-15	Budget reviews for departments with City Manager, Assistant City Managers, Finance Director, and Budget & Evaluation Manager
April 19	City Manager Proposed CIP distributed to City Council
April 20-May 13	Budget requests and estimated revenues reviewed and adjusted to enable balanced budget; City Manager's Budget finalized; document prepared
May 16	City Manager Proposed Budget distributed to City Council
May 23	City Manager Presents Proposed Budget to City Council
May 25	City Council CIP Worksession on Budget (as scheduled)
June 1, 6, 8	City Council Budget Worksessions (as scheduled)
June 13	City Council Meeting, Public Hearing on Budget
June 27	City Council Meeting, Budget Adopted
July 1	Implementation of FY 2023 Adopted Budget

Budget Document

A budget is a formal document that enables the City to plan for the future, measure the performance of city services, and help the public to understand where the revenues come from and how those revenues are spent on city services. Thus, the budget serves many purposes and addresses different needs depending on the “audience”; whether the audience is City staff, Federal and State regulatory authorities, other local governments, or taxpayers and City residents.

The purpose of this budget document is to present to the public and City Council a comprehensive picture of proposed operations for the budget year. This document is organized into several sections that are explained below:

- A. The first section provides an overview and review of the budget. Included within this section is the Budget Message from the City Manager and budget summaries
- B. The second is the Budget Guide which includes department information on the budget process, tax requirements and restrictions, revenue assumption and financial policies.
- C. The next several sections explain those portions of the total city operating budget for city departments and the services, programs, and activities.
- D. The final section provides an overview of the Capital Improvement Program.

Workplan Development

At the start of the budget process each department is asked to prepare a *work plan*. The *work plan* consists of a *mission statement*, *description* and *goals* for the department and a *description*, *annual (FY 2023) overview*, *current (FY 2022) highlights*, *statements of objectives*, *performance measures* for each division, summary of staffing and overview of capital outlay.

The departmental *mission statement* is intended to represent the fundamental reason for the organization’s existence. The *description* explains the unique contribution of the department and its divisions to the city government and/or citizens receiving services. This statement also provides a framework within which a division operates and expresses the end to which resources are directed. Departments also developed and presented goals

that align with the Citywide Goals established by the Mayor and City Council and the Shared Values identified by the City Manager.

Departments examined their divisions and developed an *annual statement* that indicates the overall focus of their operations in the coming fiscal year. A list of *highlights* from the current fiscal year (FY 2022) highlights past and present activities. These may include changes in operations, new programs, or increased emphasis that has resulted in some type of improved performance of a division. *Division Objectives* align with department goals and serve as the foundation for development of *performance measure* monitoring progress towards organizational focus over a three-year timeframe (past year, current year, proposed budget year).

Fund Structure

The budgeting/accounting policies of the City of Rocky Mount conform to generally accepted accounting principles (GAAP) applicable to governmental units.

Basis of Budgeting

All funds of the City are budgeted and accounted for during the year on the modified accrual basis in accordance with State statutes. Under the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available to pay the liabilities of the current period. Generally, expenditures are recorded in the accounting period in which a fund liability is incurred, if measurable. Principal and interest on general long term debt and vacation and sick pay are recognized as expenditures when paid. Budgeting is done on a modified accrual basis – only revenues and expenditures anticipated during the year are included.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds or account groups. A fund or account group is an independent fiscal and accounting entity with a self-balancing set of accounts, recording its assets, liabilities, fund equity/retained earnings, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with the requirements of law.

General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another funds. The fund's primary revenue sources are ad valorem taxes and intergovernmental revenues. The fund's primary expenditures are for general government, public safety, public works and parks and recreation.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of

specific sources that are legally restricted to expenditures for specific purposes. The City has seven Special Revenue Funds: Entitlement Grant Fund, Emergency Management Fund, Public Transportation Grants Fund, Crime/Safety Fund, Powell Bill Grant Fund, Economic Development Fund, and Emergency Telephone System Fund. Those subject to annual appropriation include:

- a. **Powell Bill Grant Fund** accounts for monies received from the state derived from a per gallon motor fuel tax. The local government allocation is based on local street mileage and population. Expenditures from this fund are restricted to specific highway and street construction and maintenance.
- b. **Emergency Telephone System Fund** accounts for monies received from the local telephone company from a monthly charge to telephone subscribers. Expenditures from this fund are restricted to specific purchase and maintenance of emergency telephone equipment.

Enterprise Funds - The Enterprise Funds are used to account for those operations (a) that are financed and operated in manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds subject to annual appropriation are:

- a. **Electric Fund** is used to account for electric utility operations.
- b. **Gas Fund** is used to account for gas utility operations
- c. **Water Fund** is used to account for water utility operations
- d. **Sewer Fund** is used to account for sewer utility operations
- e. **Stormwater Fund** is used to account for stormwater utility operations

Fund Structure

Agency Fund - The Agency fund is used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The City's agency fund, the **Trust (Canteen) Fund**, is used to account for funds generated from vending machines and other special projects and is subject to annual appropriation.

Internal Service Funds - The Internal Service fund is used to account for intergovernmental services or any shared type service. The Internal Service fund has an annual financial plan. These funds subject to annual appropriation are:

- a. **Risk Management Fund** is used to manage the City's self insurance revenue and expenditures.
- b. **Communications Fund** is used to account for and manage the City's radio and telecommunication operations. Prior to FY 2015, these activities were accounted for as a Division in the Electric Fund, though costs were assessed to all departments.

Financial Policies

The Finance Department drafts and edits various policies applicable to development and management of the annual budget and five-year Capital Improvement Program (CIP). These policies are proposed to, reviewed and adopted by the Mayor and Council, and are included in the Administrative Policy of the City.

Balanced Budget

In accordance with the North Carolina Budget and Fiscal Control Act, the City Manager, or an employee of their designation, serves as the Budget Officer of the City, and is responsible for presenting a balanced budget to the City Council each fiscal year. A “balanced budget” is a budget in which the estimated revenues equal the estimated expenditures.

Utility Fund Transfers

The City Council desires to preserve the financial integrity of the Enterprise Funds and to reduce the General Fund’s dependence on Enterprise Fund transfers to a level supportable by prudent business practices, therefore, the following policy regarding payments in lieu of taxes and operating transfers from the Enterprise Funds is hereby established.

Payment in Lieu of Taxes: The City shall receive annually a payment in lieu of taxes amount from the Enterprise Funds to the General Fund that approximates the amount of Ad Valorem taxes that would have been paid had utility services been provided by an investor-owned utility. The payment in lieu of taxes amount shall be calculated by multiplying the gross fixed assets of the Enterprise Funds reported in the City’s most recent audited financial statements by the City-wide tax rate per \$100 for the General Fund included in the City’s most recent budget ordinance. The payment in lieu of taxes amount calculated under this section shall be reported as an expense of the Enterprise Fund and as a revenue of the General Fund.

Rate Stabilization & Operating Reserve: The City shall budget annually a Reserve in each Enterprise Fund for Rate Stabilization or Operating purposes in an amount equal to a percentage of annual gross utility sales. The accumulated balance of the Rate Stabilization or Operating Reserve shall not exceed a set percentage of annual gross utility sales. Annual gross utility sales is defined as the gross sales reported in the City’s most recent audited financial statements.

to help offset increases in costs that would have otherwise been imposed on the City’s utility customers and in accordance with the following:

- a. The Electric Fund has invested significant capital resources to improve its Load Management Program based on projected savings from peak shaving and load reductions. These savings shall be budgeted annually in an amount equal to a minimum of one-half percent to a maximum of one percent of annual gross Electric sales based on the actual saving level. The accumulated balance of the Electric Rate Stabilization Reserve shall not exceed five percent of the gross annual Electric sales as reported in the City’s most recent audited financial statements.
- b. The Gas, Water, and Sewer Funds shall budget annually an amount equal to one percent of their annual gross sales into their respective Operating Reserves. The accumulated balance of these Reserves shall not exceed ten percent of their gross annual sales as reported in the City’s most recent audited financial statements.

Operating Transfers: The City may budget annually an operating transfer from the Enterprise Funds to the General Fund to provide the General Fund with a return on investment. The operating transfer amount shall be subject to the following conditions:

- a. Electric Fund: The amount transferred shall not exceed three percent (3%) of the gross fixed assets of the Electric Fund reported in the City’s most recent audited financial statements.
- b. Gas Fund: The amount transferred shall not exceed seventy-five percent (75%) of the Income before Transfers of the Gas Fund reported in the City’s most recent audited financial statements.
- c. Water Fund: The amount transferred shall not exceed fifty percent of the Income before Transfers of the Water Fund reported in the City’s most recent audited financial statements.

Limitations: Before any operating transfers authorized by Section 3 of this resolution can be made, the City Council must first make all appropriations required by G.S.1 591 3(b)(14), including the payment in lieu of taxes amount authorize, and secondly, must make provisions for transfers to the Rate Stabilization or Operating Reserve authorized. In addition, the total

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budgeted operating transfers from an Enterprise Fund to the General Fund shall not exceed seventy-five percent (75%) of the Enterprise Fund's most recent audited operating income.

Exceptions: In the event of an emergency, or unforeseen special need, the amount to be paid from the Enterprise Funds under this resolution may be increased or reduced upon approval by a simple majority of the City Council.

The investment policy applies to activities of the City with regard to investing the financial assets of all funds.

Safety of capital is regarded as the highest priority in the handling of investments for the City. All other objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value.

- From time to time, securities may be traded for other similar securities
- to improve yield, maturity, or credit risk. For these type transactions, a
- loss may be incurred for accounting purposes; provided any of the
- following occurs with respect to the replacement security:
- The yield has been increased, or
- The maturity has been reduced, or
- The quality of the investment has been improved.

The City's investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay all obligations as they become due. No investment shall have maturities greater than 36 months. Although many securities are acceptable for investment using the authorized list in N.C. General Statute 159.30, some are not very desirable from a liquidity standpoint. Accordingly, only those securities with an active secondary market may be purchased from that list.

The City seeks to optimize return on investments within the constraints of safety and liquidity. The investment portfolio shall be designed with the annual objective of exceeding the average return on the N.C. Capital Management Trust Fund.

The standard of prudence to be applied by the investment officials shall be the "prudent person" rule which states, "Investments shall be made with judgment and care, under circumstances then

prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The prudent person rule shall be applied in the context of managing the City's overall portfolio.

Investment officers, or persons performing the investment functions, acting in accordance with written policies and procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Investment Authority: The Finance Director is designated by the City Manager as the investment officer of the City and is responsible for investment decisions and activities.

Authorized Investments: Investments of the City must conform with investments authorized pursuant to N.C. General Statute 159.30. The initial use of an authorized investment will require the approval of the City Manager. Any investment with a maturity greater than one (1) year will require the approval of the City Manager to ensure that long-term cash forecast are funded.

Approved Brokers/Dealers: It is the policy of the City to purchase investment instruments from only those brokers, dealers, agents, or banks included on the City's approved list. For banks and savings and loan associations, the approved list shall be the list of financial institutions using the pooling method of collateralization as determined and approved by the State of North Carolina Department of State Treasurer. For brokers or dealers, only those included on the Federal Reserve Bank of New York's list of primary government securities dealers shall be deemed an approved broker or dealer.

Safekeeping & Collateralization: To protect against potential fraud and embezzlement, the investment securities of the City shall be secured through third-party custody and safekeeping procedures. Investments held in custody and safekeeping by the Federal Reserve Bank will qualify as third-party safekeeping. Other banks may qualify as third-party banks for safekeeping provided the securities are held in the Trust Department of the bank. Certificates of deposit and other time deposits do not need to be placed with a

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thirdparty custodian. Prior to any securities being transferred to a third-party custodian bank, a custodian/safekeeping agreement will be executed by both parties and placed on file.

Deposit-type securities (i.e. certificates of deposit) shall be collateralized through Options 1 and 2 as allowed by N.C. Administrative Code Title 20, Chapter 7. Other investments shall be collateralized by the actual security held in safekeeping.

Bidding Process: All investments, when feasible and appropriate, will be purchased through a competitive bidding process, using the dealers and banks on the approved list. However, the City is under no obligation to secure competitive bids from all the dealers or banks on the approved list. Rather, a decision will be made by the Investment Officer as to the institutions that have been the most competitive over the past year, and these will be contacted for a bid. Documentation will be retained for all bids, with the winning bid clearly identified. If for any reason, the highest interest rate bid was not selected, then the reasons leading to that decision will be clearly indicated on the bidding forms.

Portfolio Diversification: The City will diversify use of investment instruments and dealers or banks to reduce both credit risk and liquidity risk. The following maximum limits are guidelines established for diversification by instrument:

Certificates of Deposit-Commercial Banks	75%
Certificates of Deposit-Savings & Loan Associations	20%
N.C. Capital Management Trust	100%
U.S. Treasury Bills/Notes	75%
Other U.S. Government Agencies	30%
Commercial Paper	20%
Bankers' Acceptances	20%
Repurchase Agreements	30%

Any deviations in these percentages must be approved in writing by the City Manager. No deviation shall be more than 10% from these percentages.

To allow efficient and effective placement of proceeds from bond sales, the limit on repurchase agreements may be exceeded for a maximum of thirty (30) business days following the receipt of bond proceeds, on the direction of the Director of Finance.

No more than 25% of the entire portfolio may be placed with any one bank, savings and loan or security

dealer except daily cash management transactions with the N.C. Capital Management Trust.

Monitoring the Portfolio: The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly. A summary report of all investments will be compiled monthly which list the investment, maturity, interest rate, and amount invested, with copies provided to City Manager and City Treasurer.

Internal Controls: Appropriate internal controls will be developed and maintained. These controls will allow for proper segregation of duties, approval of investment transactions, and authorization for any deviations from the policies.

The City maintains sound financial policies to assure strong financial health. To that end, this policy establishes guidelines for issuance, management, and repayment of debt. The primary purpose is to establish criteria that will protect the City's financial integrity while providing a funding mechanism to meet capital needs. The advantages of a debt management policy are enhancing the quality of decisions, documenting the process, identifying objectives for staff to implement, and demonstrating a commitment to long-term financial planning.

Objectives: The City will borrow only for capital improvements that cannot be funded on a pay-as-you-go basis. The City will not issue long-term debt to finance current operations.

The City will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balance in excess of policy targets, and current year (pay-as-you-go) appropriations.

When the City finances capital improvements, it will repay the debt within a period not to exceed the expected useful life of the project.

The City will establish an affordable debt level to preserve credit quality and ensure sufficient revenue is available to pay annual debt service. This will be balanced against the City's need to maintain its infrastructure and manage growth.

The City will use appropriate debt instruments to provide funding for capital assets at the lowest cost with minimal risk.

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The City will strive to achieve and maintain the highest credit rating awarded by municipal bond rating agencies. The City will continually improve financial policies and maintain good communication with bond rating agencies and the Local Government Commission.

The City will ensure that adequate systems of internal control exist so as to provide reasonable assurance as to compliance with applicable laws, regulations, and covenants associated with outstanding debt.

Guidelines: The City will prepare and update annually a five-year Capital Improvement Program (CIP) to be approved by City Council. The CIP will be developed with an analysis of the City's infrastructure and other capital needs, and the financial impact of the debt service required to meet the recommended financing plan.

Prior to the issuance of new debt, consideration shall be given to forecasted tax rate requirements, ratio of net direct debt of the city to assessed taxable value (legal debt margin), and debt service payments to the operating budget for each operating fund. See section 5 for target debt ratio information. The general fund ratios will include tax supported debt and the utility fund ratios will include direct utility revenue of the utility fund for which the debt relates.

The City may employ municipal finance professionals to assist in developing a debt plan, evaluating debt affordability, developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors.

Bond Counsel: Debt issued by the City will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt when required by the LGC and/or lender. The opinion shall include confirmation that the City has met all statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt. Some short-term direct loans may not require bond counsel opinion and in such case, the city attorney will provide any necessary opinions.

Financial Advisor: A financial advisor(s) will be used to assist in the issuance of the City's debt. The financial advisor will provide the City with objective advice and analysis on debt issuance. This

includes, but is not limited to, monitoring market opportunities, structuring and pricing debt, and preparing official statements of disclosure.

Underwriter: An underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

Fiscal Agent: A fiscal agent will be used when required to provide accurate and timely securities processing and timely payment to bondholders.

The City will generally issue its debt through a competitive process but may use a negotiated process under the following conditions.

- a. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
- b. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
- c. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
- d. The debt issued is bound by a compressed timeline due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

The City will attempt to structure debt in the best and most appropriate manner consistent with statutory requirements and financial policies of the City in order to achieve a level principal repayment and minimize interest expense. Debt structures that result in significant "back loading" of debt should be avoided.

The City will use debt instruments that are authorized by NC State Statutes (NCGS 159). Those most commonly used include installment financing, revenue bonds, general obligation bonds, special obligation bonds and limited obligation bonds. The City may also participate in tax credit (new market tax credit and historic tax credit) financing programs authorized by the state and federal government. The appropriate financing instrument will be determined for each project on a case by case basis.

The City will monitor its outstanding debt in relation to existing conditions in the debt market and will refund

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any outstanding debt when sufficient cost savings can be realized.

The City will comply with all arbitrage requirements as established by the IRS and all disclosure requirements established by the Securities and Exchange Commission. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with the tax law, and remitting rebatable earnings to the federal government in a timely manner in order to preserve the tax exempt status of the City's outstanding debt issues.

When required, the City will provide ongoing disclosure information to established national information repositories and maintain compliance with disclosure standards promulgated by state and national regulatory agencies.

The City Manager and Director of Finance are responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this policy.

Target Debt Ratios: Target debt ratios will be calculated at least every two years and reviewed by the Director of Finance and City Manager.

- a. The ratio of direct debt as a percentage of assessed valuation measures debt levels against the property tax base which generates the tax revenues that are the main source of debt repayment. The ceiling for this ratio is 2.5%. A lower ratio is favorable. This ratio is not applicable to debt of the utility funds.
- b. The ratio of direct debt service as a percentage of operating expenditures reflects the City's budgetary flexibility to adapt spending levels and respond to economic condition changes. The ceiling for this ratio is 15%. A lower percentage is favorable.
- c. The ten-year payout ratio reflects the amortization of the City's outstanding debt. A faster payout is considered to be a positive credit attribute. The City will maintain a floor of 50% for tax supported debt. A higher percentage is favorable.

Fund Balance

This City has established guidelines for preserving an adequate fund balance in each of our operating funds in order to sustain financial stability and to provide prudent management of the City's financial reserves.

Fund balance is the difference between a fund's assets and liabilities.

Fund Balance for Governmental Funds: An accounting distinction is made between the portions of governmental fund balance that is spendable and nonspendable. These are broken up into five categories.

- a. **Non-Spendable Fund Balance:** Includes amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid items.
- b. **Restricted Fund Balance:** Includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and debt proceeds.
- c. **Committed Fund Balance:** Includes amounts that can be used only for specific purposes determined by a formal action of the City's highest level of decision making authority which is the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the commitment originally.
- d. **Assigned Fund Balance:** Comprises amounts intended to be used by the City for specific purposes. Intent can be expressed by the City Council by the approval of a budget appropriation. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. An example includes funds assigned by City Council for specific capital projects.
- e. **Unassigned Fund Balance:** The residual classification of the general fund and includes all amounts not contained in other classifications. The City uses the term available fund balance when referring to unassigned fund balance. Available fund balance (or unassigned fund balance) is the amount that is available for appropriation for public purposes.

Net Position for Enterprise Funds: Enterprise funds are used to account for utility operations. Enterprise funds are also known as proprietary funds and business-type funds. Enterprise funds have separate terminology for fund balance termed as net position in financial reports. The City most commonly uses the term fund

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balance for enterprise funds. The fund balance of all enterprise funds including electric, gas, water, sewer, and stormwater is designated as unrestricted fund balance (or unrestricted net position). Restricted fund balance has externally imposed limitations on use from creditors, grantors, laws/regulations, or constitutional provisions. Generally, enterprise funds are business-type funds that do not have those types of restrictions and therefore, the fund balance is termed as unrestricted. However, the fund balance of each enterprise fund is used for the operating purpose of the fund. Appropriations for non-operating purposes and transfers will be clearly indicated in the annual budget and transfers will be subject to applicable statutory restrictions.

Objectives: The City recognizes that it is essential to maintain adequate unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City's operations.

Fund balance enhances short term and long term financial credit by helping to achieve the highest credit and bond ratings possible.

Fund balance promotes long-term financial stability by establishing clear and consistent guidelines.

Fund balance will provide funding flexibility during unanticipated emergencies and natural disasters.

Guidelines: The City will maintain reserves required by law, ordinance, and/or bond covenants. The North Carolina Local Government Commission prescribes that a minimum of at least eight percent (8%) of annual budgeted expenditures be maintained for unassigned fund balance. Higher levels may be set based on the current operating needs of the individual fund and future funding needs. The City's goal is to have a minimum fund balance of at least ten percent (10%) of annual budgeted expenditures for each operating fund.

All expenditures drawn from fund balance will require City Council approval unless previously authorized by the City Council for expenditure within the City's annual budget.

The City will maintain adequate fund balance in all operating funds and have a goal for each fund that will be reviewed at least annually and a target level set by the Director of Finance and the City Manager. The level of fund balance will be determined based on anticipated

future funding needs, historical trends, growth patterns, the economy and contractual obligations, including bond covenants. The target level can be no less than ten percent (10%) of annual budgeted expenditures for each operating fund.

If fund balance falls below annually set levels, the Finance Director and City Manager shall implement a plan to restore fund balance within thirty-six (36) months and include within its annual budget the plan to restore fund balance to required levels.

The City Council may, from time to time, appropriate fund balances that will reduce available fund balance below the 10% goal for the purpose of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the City. In such circumstances, the City Council will adopt a plan to restore the available fund balance to the policy level within thirty-six (36) months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the City, then the City Council will establish a different but appropriate time period.

In addition to available fund balance, the City will establish contingency reserves including an emergency reserve in all funds and rate stabilization and working capital reserves in the enterprise funds.

- a. The City will establish and maintain an emergency reserve to pay for needs caused by unforeseen emergencies, including unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery costs. The goal for the contingency reserve will be no less than 0.25% of each operating fund.
- b. The electric, gas, water, sewer, and stormwater enterprise funds will establish and maintain rate stabilization reserves as needed. The purpose of the rate stabilization reserve is to help offset increases in costs that would have otherwise been imposed on the City's utility customers. The utilization of the rate stabilization reserve shall be approved by Council and is not intended to be a permanent solution to addressing the increase in costs. It is understood that once the rate stabilization reserve is utilized, it is no longer available until replenished.
- c. The electric, gas, water, sewer, and stormwater enterprise funds will establish and maintain working capital reserves as needed. The reserve will be established to fund capital projects that are

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unforeseen which need to be done expediently and those that are better suited for payment with cash reserves rather than financing proceeds. The utilization of the working capital reserve shall be approved by Council and it is understood once the reserve is utilized, it is no longer available until replenished.

CURRENT CITY OF ROCKY MOUNT ORGANIZATIONAL CHART

