



ADMINISTRATIVE SERVICES COMMITTEE

Agenda

Wednesday, March 9, 2011
4:00 pm

Madison Avenue Meeting Room
500 SW Madison

Discussion/**Possible Action**

I. Second Quarter Operating Report
(Attachment)

Discussion/**Possible Action**

II. Financial Policies Review
(Attachment)

Information

III. Other Business

Next Scheduled Meeting

Wednesday, March 23, 2011 at 4:00 pm
Madison Avenue Meeting Room, 500 SW Madison Ave

Agenda

None at this time

MEMORANDUM

Feb.18, 2011

TO: Administrative Services Committee
FROM: Nancy Brewer, Finance Director *NB*
SUBJECT: Second Quarterly Operating Report

I. Issue

To review and accept the Second Quarterly Operating Report for FY 10-11.

II. Discussion

The Second Quarterly Operating Report (QOR) has been published on the City's web site and is available for review. Total revenues at the end of the second quarter of the fiscal year were at 53% of budgeted total revenues. Operating expenditures across departments were also largely on target at 43% of the amended budget. Financial performance in all funds is generally at expected levels, with the following noteworthy situations:

- The Fleet Fund has continued to be marginally overexpended year-to-date based on higher than anticipated fuel costs as well as more maintenance to vehicles performed year-to-date. Public Works is closely monitoring the spending in this fund and if personal services savings are not adequate to offset, could consider a supplemental budget in the last quarter of the year, since charges for service revenue is also running higher than budget due to the charges for these internal services.
- Several of the Property Tax Fund departments are experiencing very tight margins as of the end of the second quarter. Parks & Recreation in particular will be challenged to meet its revised savings estimate for the year. A zero to negative Historic Norming Adjustment in FY 10-11 is anticipated based on current spending levels combined with the seasonal increases that occur in the last quarter of the fiscal year in this department.

Attached to this memo is the executive summary for the Second QOR (Attachment A) and the Property Tax Funds Combined income statement (Attachment B). The executive summary includes some basic economic information, an analysis of any significant variances from expected financial performance, an income statement for all funds combined, and a summary of operating expenditures by fund and by department. The summary also includes a table showing all the budget amendments approved so far this fiscal year by the City Council. These amendments all have the effect of increasing total appropriations for the City above what was in the adopted budget.

The Capital Project budget is 15% expended at the end of the second quarter. Capital project work and the related spending are typically lower early in the year as design work is completed and funding availability is assessed. The major projects with noticeable progress included substantial completion of infrastructure construction related to Airport Industrial Park Improvements, fully completed bike lanes on Country Club Drive Bike, nearly 75% of spending for the Transit Operations Center restroom, plus more City Hall seismic work.

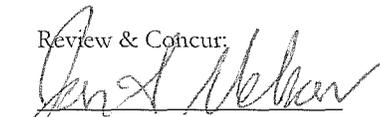
The Quarterly Operating Report also includes an update on the status of City Council Goals as of December 31, 2010.

As a special note, the Department Summary section of the Quarterly Operating Report will be removed from the City's web site around March 7 since it includes statements about accomplishments that some may deem to be advocacy for the levy.

III. Requested Action

Review the Second Quarterly Operating Report, and recommend the City Council accept the report.

Review & Concur:


City Manager

SECOND QUARTERLY OPERATING REPORT FISCAL YEAR 2010-2011

EXECUTIVE SUMMARY

February 10, 2011

The Quarterly Operating Report is produced and published on the City's web site within 45 days of the close of each fiscal quarter based on Financial Policy 10.04.040, then shared with the City Council's Administrative Services Committee to provide citizens, the Budget Commission and City Council with information about the City's financial performance for the quarter.

This Executive Summary provides highlights of the City's financials, and includes, as an appendix, a reader's guide to some of the terminology used throughout the report. The remainder of the report covers:

- The revenue and expenditure performance for each of the operating funds in an income statement format that includes operating and non-operating revenues, expenditures and total fund activities. The first income statement presented in that section shows results year-to-date for all property tax funds combined.
- Departmental information including updated performance measures for the quarter as well as accomplishments and pending work plan items. This section also includes a report on vacancies;
- Capital Improvement Program (CIP) status report on the various projects underway year-to-date; and
- An update on City Council Values and Goals.

The FY 10-11 budget was prepared and adopted during a time of national economic recession. High unemployment, declining property values, and slowed development, as well as significantly lower than historical results in FY 09-10, were all taken into account when preparing the budget. Despite these factors, demand for many City services has never been higher, which in the face of the relatively flat or declining revenue stream is having a negative impact on fund balances across the organization.

At the end of the second quarter, market analysts have stated that economic recovery is continuing, though still at a pace that is insufficient for significant improvements in the labor market. Optimism for U.S. growth in 2011 stems from positive data trends in the areas of personal consumption expenditures, exports and nonresidential fixed investment. Unemployment rates in Oregon and nationally held at around 10% as of the end of December. However, Corvallis has continued to fare better at 7.6% unemployment on a seasonally adjusted basis, and is the only Metropolitan Statistical Area in Oregon with a rate of less than 10%. The December employment report showed an increase of 103,000 jobs. Currently in FY 10-11, the Federal economic stimulus that was so prominent in FY 09-10 has subsided as American Recovery and Reinvestment Act (ARRA) projects are finished or nearing completion.

Overall, the City's financial performance through the second quarter of the fiscal year generally has been as expected. Revenue and expenditure patterns are close to historical patterns (i.e., the majority of Property Tax revenue is received in the second quarter, while most expenditures remain at or slightly below budget pro-rated for year-to-date). The economy continues to impact the pace of residential building, but large projects from OSU have stabilized development revenues for the time being. In some cases, the percentage of revenues received compared to budget may belie what remains relatively poor revenue performance, due to reduced revenue estimates. This may hold true for some charges for service or fee-related revenues, such as Parks and Recreation activities and System Development Charges, where numbers may have been revised down due to the economy, but appear to be performing better because they are exceeding estimated amounts.

Expenditures are in line with last year's spending patterns for the first half of the fiscal year. Departments are actively controlling expenditures in FY 10-11 in an effort to attain an adequate fund balance at the end of the year.

The following table compares year-to-date actuals with budget for all funds in both FY 10-11 and FY 09-10:

REVENUE	AMENDED BUDGET	UNAUDITED FY 10-11	FY 10-11 % REC/EXPEND	AMENDED BUDGET	Y-T-D FY 09-10	FY 09-10 % REC/EXPEND
Budgeted Fund Balance	\$40,494,356					
Property Taxes	\$21,208,240	\$19,009,104	89.63%	\$20,961,130	\$18,180,088	86.73%
Other Tax	1,036,190	520,614	50.24%	1,194,350	488,061	40.86%
Licenses/Permits	6,844,580	2,953,450	43.15%	6,886,740	2,876,580	41.77%
Charges for Service	38,306,510	20,607,371	53.80%	38,215,330	19,934,542	52.16%
Intergovernmental	18,355,056	4,892,126	26.65%	16,821,175	5,696,051	33.86%
Fines/Forfeitures	1,365,570	583,140	42.70%	1,413,310	433,276	30.66%
Miscellaneous	2,648,600	975,511	36.83%	2,997,033	1,714,260	57.20%
Other Financing Sources/Transfers in	15,646,822	6,274,963	40.10%	14,304,855	5,217,992	36.48%
TOTAL CURRENT REVENUE	\$105,411,568	\$55,816,279	52.95%	\$102,793,923	\$54,540,850	53.06%
EXPENDITURE BY DEPARTMENT						
City Manager's Office	\$3,084,270	\$1,725,381	55.94%	\$3,111,770	\$1,725,336	55.45%
Community Development	8,276,960	2,422,222	29.26%	7,553,710	2,314,580	30.64%
Finance	4,995,400	2,318,047	46.40%	4,913,490	2,418,942	49.23%
Fire	10,626,930	5,137,696	48.35%	11,524,260	5,583,662	48.45%
Library	6,434,610	2,961,087	46.02%	6,473,870	2,977,828	46.00%
Park & Recreation	5,795,480	2,874,163	49.59%	6,023,513	3,019,241	50.12%
Police	12,570,057	6,143,082	48.87%	12,494,671	6,174,725	49.42%
Public Works	29,268,899	11,558,391	39.49%	31,247,784	13,115,712	41.97%
Non-Departmental	1,519,260	738,920	48.64%	1,824,820	822,668	45.08%
TOTAL OPERATING EXPENDITURES	\$82,571,866	\$35,878,989	43.45%	\$85,167,888	\$38,152,694	44.80%
Debt Service	\$8,162,110	\$4,734,713	58.01%	\$7,214,200	\$4,688,421	64.99%
Capital Projects	14,157,847	2,174,669	15.36%	11,866,610	2,018,937	17.01%
Transfers Out / Other Financing Uses	13,089,352	4,151,070	31.71%	13,582,235	5,206,644	38.33%
Contingencies/Reserves	1,302,520	0	0.00%	1,585,740	0	0.00%
TOTAL ALL EXPENDITURES	\$119,283,695	\$46,939,441	39.35%	\$119,416,673	\$50,066,696	41.93%
CURRENT REVENUES LESS						
TOTAL EXPENDITURES	(\$13,872,127)	\$8,876,838		(\$16,622,750)	\$4,474,154	

In general, the status of the City's finances was in line with expectations at the end of the second quarter. Year-to-date revenues of \$55,816,279 are at 52.95% of the Amended Total Revenue Budget of \$105,411,568. The Amended Budget reflects the adopted budget, plus any amendments approved by the City Council via resolution during the course of the fiscal year. In the first half of FY 10-11, the following amendments to the budget were approved:

Date	Amendment Type	Resource	Fund	Department	Net Expenditure	Impact
7/19/2010	Res - Grant	LSTA Grant	Library	Library	\$	50,000
7/19/2010	Res - Grant	EPA Storm Grant	Storm	Public Works	\$	14,737
9/7/2010	Res - Grant	DOJ Byrne Grant	General	Police	\$	13,478
10/4/2010	Res - Grant	Benton County ARRA	Street	Public Works	\$	130,000
10/18/2010	Res - Grant	DOJ Byrne Grant	General	Police	\$	85,411
10/18/2010	Res - Grant	US DOJ Grant	General	Police	\$	5,228
12/6/2010	Res - Grant	US EPA Grant	General	Public Works	\$	491,762
				Total Increase	\$	790,616

Significant revenue highlights include:

- **Property taxes** totaled \$19,009,104 through the second quarter which equals 89.63% of the budgeted property tax revenue. The majority of property taxes for the fiscal year are typically collected in the second quarter. FY 10-11 year-to-date property tax revenues are comparable with last fiscal year's results, as collections have followed the historical pattern.
- **Other Taxes** are collected from hotels in the form of room taxes and totaled \$520,614 or 50.24% of budget for the first half of the fiscal year. Summer seasonality and early football season hotel stays have led to better results thus far in FY10-11 compared to last year at the same time.
- **Licenses, Fees and Permits** totaled \$2,953,450 which represents 43.15% of the amended budget. While franchise fees are underperforming year-to-date, a rate increase for Pacific Power that went into effect in November is expected to begin offsetting projected shortfalls brought on by utility conservation efforts by the third quarter. The transportation maintenance fee collections are on target and Development Service permit fees are higher than expected due to ongoing large projects at OSU.

- **Charges for Services** were \$20,607,371 which represents 53.80% of the amended budget. These revenues are largely on target with budget and last year.
- **Intergovernmental** revenues are below target year-to-date and low compared to last year's actuals at \$4,892,126 or 26.65%. The receipt of grant monies tends to be volatile and highly dependent on timing of related expenditures.
- **Interest earnings** were higher than expected with some improvement in rates, totaling \$151,194 at the end of the second quarter, which represents 64.56% of the budgeted interest.

Operating expenditures for all funds totaled \$35,878,989 or 43.45% of the Amended Operating Expenditure Budget which is lower than last year both in total dollars expended and percentage of budget. These results are partly reflective of department efforts to contain costs, particularly in the property tax funds where resources are becoming much more limited. Non-operating expenditures, which include capital projects, transfers, debt service, and contingency, totaled \$11,060,452 or 30.13% of the \$36,711,829 Amended Non-Operating Budget. In total, expenditures through the second quarter were \$46,939,441 or 39.35% of the \$119,283,695 budgeted, compared to 41.93% for last fiscal year. A breakdown of departmental expenditures by category is provided below:

OPERATING EXPENDITURES BY DEPARTMENT

DEPARTMENT	AMENDED BUDGET	PERSONAL SERVICES	SUPPLIES & SERVICES	CAPITAL OUTLAY	TOTAL EXPENDITURES	% OF AMENDED BUDGET
<i>Total Budget by Category</i>		\$45,355,916	\$35,206,790	\$2,009,160	\$82,571,866	
City Manager's Office	\$3,084,270	\$602,345	\$1,123,037	\$0	\$1,725,381	55.94%
Community Development	8,276,960	1,635,022	787,199	0	2,422,222	29.26%
Finance	4,995,400	1,661,539	651,474	5,034	2,318,047	46.40%
Fire	10,626,930	4,220,797	896,107	20,791	5,137,696	48.35%
Library	6,434,610	1,865,985	1,038,803	56,299	2,961,087	46.02%
Parks & Recreation	5,795,480	1,905,384	949,508	19,271	2,874,163	49.59%
Police	12,570,057	4,673,320	1,463,722	6,040	6,143,082	48.87%
Public Works	29,268,899	5,401,055	6,082,646	74,690	11,558,391	39.49%
Non Department	1,519,260	0	738,920	0	738,920	48.64%
TOTAL	\$82,571,866	\$21,965,449	\$13,731,416	\$182,124	\$35,878,989	43.45%
<i>Percent of Budget</i>		48.43%	39.00%	9.06%	43.45%	

Significant expenditure highlights include:

- **Personal services** totaled \$21,965,449 or 48.43% of the amended budget of \$45,355,916 and was in line with the percent of budget spent in FY 09-10, though \$408,000 higher due to cost of living and associated benefit increases.
- **Supplies and Services** totaled \$13,731,416 or 39.00% of the amended budget of \$35,206,790. The dollars spent in FY 10-11 are 10% lower than the amount spent in the same period in FY 09-10 due primarily to the slowdown of ARRA grant funded projects in the Public Works department.
- **Capital Outlay** totaled \$182,124 or 9.06% of the amended budget of \$2,009,160. Capital purchases do not tend to follow a regular pattern other than to typically weight toward the end of the fiscal year to ensure that sufficient budget remains for the acquisition.

NON OPERATING EXPENDITURES

- **Capital projects** totaled \$2,174,669 or 15.36% of the amended budget of \$14,157,847. Capital project expenditures tend to fluctuate year-over-year, and there are always projects that are either carried forward into following years or simply do not come to fruition. For FY 10-11, several projects have yet to begin.
- **Debt service** payments totaled \$4,734,713 or 58.01% of the amended budget of \$8,162,110, which is similar to last year's levels.
- **Transfers and Other Financial Uses** totaled \$4,151,070 or 31.71% of the amended budget of \$13,089,352. The majority of the transfers are related to capital projects. See the Capital Improvement Program section for information on the status of capital projects.

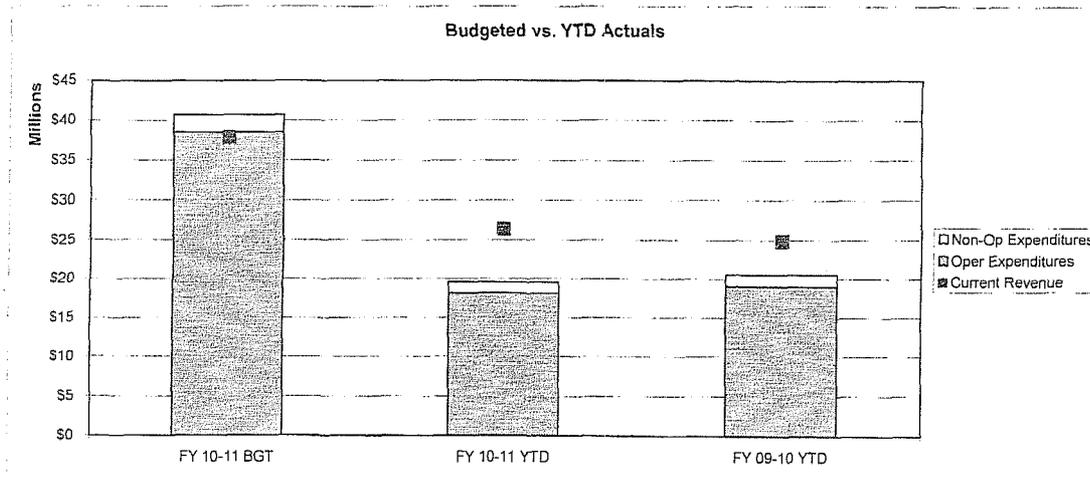
As always, if you have questions or concerns about the information in this report, please do not hesitate to contact me at (541) 766-6990 or via e-mail at nancy.brewer@ci.corvallis.or.us.

Nancy Brewer
Finance Director

PROPERTY TAX FUNDS COMBINED*

REVENUE	AMENDED BUDGET	2nd Quarter FY 10-11	UNAUDITED FY 10-11	FY 10-11 % REC/EXPEND	2nd Quarter FY 09-10	Y-T-D FY 09-10	FY 09-10 % REC/EXPEND
Budgeted Fund Balance	\$2,716,096						
Property Taxes	\$19,233,240	\$17,176,445	\$17,314,343	90.02%	\$16,003,207	\$16,152,334	86.95%
Other Tax	1,036,190	312,898	520,614	50.24%	291,869	488,061	40.86%
Licenses/Permits	5,449,690	1,167,574	1,988,853	36.49%	1,171,080	1,995,811	35.72%
Charges for Service	5,307,470	1,981,162	3,250,636	61.25%	1,876,305	3,025,414	56.89%
Intergovernmental	5,050,299	2,407,032	2,642,534	52.32%	2,245,000	2,464,823	58.15%
Fines/Forfeitures	957,640	193,842	375,489	39.21%	123,556	266,825	26.42%
Miscellaneous	341,750	76,743	292,292	85.53%	145,078	481,615	104.13%
Other Financing Sources	430,450	0	19,002	4.41%	0	1,272	0.00%
TOTAL CURRENT REVENUE	\$37,806,729	\$23,315,695	\$26,403,763	69.84%	\$21,856,094	\$24,876,154	68.36%
EXPENDITURE BY DEPARTMENT							
Community Development	\$1,618,220	\$356,789	\$723,504	44.71%	\$381,311	\$741,228	43.04%
Finance	618,920	140,973	285,008	46.05%	168,661	312,722	45.71%
Fire	10,626,930	2,568,616	5,137,696	48.35%	2,695,825	5,583,662	48.45%
Library	6,434,110	1,397,190	2,960,961	46.02%	1,460,336	2,976,580	46.25%
Parks and Recreation	5,795,480	1,242,911	2,874,163	49.59%	1,321,350	3,019,241	50.12%
Police	10,045,107	2,414,248	4,971,493	49.49%	2,495,436	5,138,480	50.74%
Public Works	1,816,852	241,995	460,260	25.33%	205,333	374,163	29.19%
Non-Departmental	1,517,910	336,262	738,070	48.62%	402,226	821,817	53.88%
TOTAL OPERATING EXPENDITURES	\$38,473,529	\$8,698,984	\$18,151,154	47.18%	\$9,130,478	\$18,967,893	48.23%
Debt Service	\$49,920	\$0	\$0	0.00%	\$0	\$0	0.00%
Transfers	1,818,300	858,350	1,368,130	75.24%	937,840	1,520,270	47.50%
Contingencies/Reserves	335,250	0	0	0.00%	0	0	0.00%
TOTAL ALL EXPENDITURES	\$40,676,999	\$9,557,334	\$19,519,284	47.99%	\$10,068,318	\$20,488,163	47.50%
CURRENT REVENUE LESS							
TOTAL EXPENDITURES	(\$2,870,270)	\$13,758,361	\$6,884,480		\$11,787,776	\$4,387,991	

* Includes General, Parks & Recreation, Fire & Rescue, and Library Funds



MEMORANDUM

February 17, 2011

TO: Administrative Services Committee

FROM: Nancy Brewer, Finance Director *NB*

SUBJECT: Financial Policies Update

I. Issue

To address Councilor Brown's request for additional review of five policy areas.

II. Discussion

At the February 7, 2011 City Council meeting Councilor Brown brought up five areas of Financial Policies he thought should have been reviewed/ revised during the previous ASC discussion. His comments, and staff's responses are as follows:

1. Policy 10.03.050 Utility Fees (page 6) – Councilor Brown suggests that there should be financial policies in this section to address the Sustainability Initiative Fees (SIF), and the policy on Franchise Fees should also be modified to address the SIF.

Staff's response – Councilor Brown's notes do not recommend any specific language changes. In a review of the existing policies, Finance Department staff do not see a need for financial policies related to the SIF. All three fees were created by ordinance, where specific information about the fee, methodology for charges, methodology for rate increases (if any), and restrictions on use, is already addressed in the ordinance. As such, these fees already fall under the more general discussion of "fees" at the beginning of section 10.03. As for the franchise fees, the SIF are not subject to franchise fees, and staff believes the current language on the methodology to calculate franchise fees is clear that the franchise fees only apply to water, wastewater, and storm water fees, not to the bill amount.

2. Policy 10.03.060 Parks & Recreation Department Fees (page 6) – Councilor Brown's note suggests there should be changes in this language related to the level of City support.

Staff's response – As noted in the January 11, 2011 staff report, staff may be back with recommendations for a mid-year update following the Parks, Natural Areas, and Recreation Board's (PNARB) current review of the financial policy language for cost recovery and fees. This is a Council approved, public input process expected to take a year or more and involves bringing in a consultant to develop a recommendation for a new fee structure model. Staff believes this process needs to continue without staff making recommendations for change in the middle of the process.

3. Policy 10.03.060.021 Osborn Subsidy (page 7) – Councilor Brown's note indicates that the policy about the level of property tax subsidy for the pool should be changed in light of the current financial situation.

Staff's response – As noted in the January 11, 2011 staff report, this is another issue that is likely to be back before the Council for a mid-year update based on the outcome of the budget process. At the time the staff report was drafted, the City Council had not taken action on the levy or completed its definition of what would be funded. Though that determination has been made today, staff continues to recommend holding off on making revisions to the policy language since the outcome of the levy election would change what staff would recommend doing with all of the Osborn Fee section (10.03.060.020).

4. Policy 10.04.050.030 Equipment Replacement Plans (page 10) – Councilor Brown's note suggests two edits as follows:

10.04.050.030 Equipment Replacement Plans

Assets which are not part of a major infrastructure system or buildings and land, including vehicles, computers, and specialized equipment required for normal work (i.e., defibrillators, bullet proof vests), will be tracked by each department with replacement plans made ~~for at least the financial planning period~~ considering projected future budget deficits. These schedules will be updated annually in conjunction with the budget process.

Every effort will be made to develop an equipment replacement schedule that results in a stable annual spending level. If spending levels cannot be stable and would result in a significant dollar amount variance year-over-year, staff will set aside in reserves an amount each year adequate to fully fund the project in the future.

Consideration for scheduling replacement shall include:

- a. Age of the asset and its manufacturer's recommended useful life;
- b. Wear and tear on the asset;
- c. Environmental conditions which may shorten or lengthen the useful life of the asset;
- d. The cost/benefit to complete routine maintenance and delay replacement;
- e. Availability of service and/or parts; ~~and~~
- f. The cost/benefit of early replacement with more efficient and/or less expensive technology; and
- g. the anticipated stream of future revenues.

Staff response – This section of the Financial Policies is about planning for vehicle/equipment replacement. While there is a line that addresses the use of reserves as a savings mechanism to lessen individual fiscal year impacts, most of the focus is on the plan itself and not on the funding. Both of the recommended changes tie future vehicle/equipment replacement decisions to the ability to pay. The first recommended change would effectively end planning for vehicle replacements because all of the property tax funds (and some non-tax supported funds) show future year deficits. The existing language is designed to focus the department's planning efforts to know and program expected replacements during the financial planning period so that all expected costs are known and included in the long-term financial outlook.

The second recommended change would effectively defer replacements until there was a revenue stream to fund the replacement. Again, with many funds showing current/future deficits this change would likely lead to not including any vehicle/equipment replacements in the financial plan. The end

result would be aging vehicles/equipment and could mean the failure of any given department to meet its most basic objectives.

While staff recognizes the challenges associated with not having vehicle/equipment replacement reserves when they are needed, staff also thinks that the planning process is critical to allow future costs to be identified, programmed, and where needed a funding source to be identified. Staff believes the current language supports a planning process that will ultimately result in either securing alternative funding, re-funding reserves, or making cash purchases funded by eliminating other costs in the budget.

5. 10.03.060.030 Rate Review (page 7) – Councilor Brown’s note indicates that based on the final clause of the section (concerns for other City operations) the Human Services Committee should be directed to expedite its review of Parks and Recreation Department fees.

Staff response – As noted in the January 11, 2011 staff report, PNARB is working on fee methodology and recommendations for cost recovery rates, with recommendations expected to come forward following a consultant’s recommendations and a public process to review those recommendations. When PNARB’s recommendations are made, staff anticipates a revision to the Financial Policies to incorporate the recommendations.

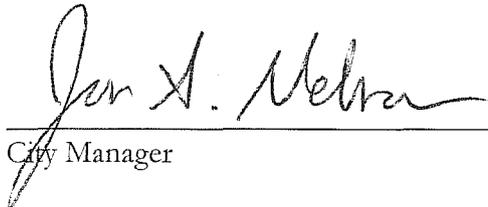
Parks and Recreation fees are currently scheduled for review at the Human Services Committee on July 6, 2011. The schedule for annual fee review is set each year in a manner that allows staff to complete an analysis of fees, PNARB review of the analysis (scheduled for May 19), and public comments prior to HSC review. Further complicating the annual Parks and Recreation fee review is the timing for when fee increases are implemented relative to when class periods are set to begin. Fees must be established well before an Activity Guide for a season is published; the Spring/Summer Activity Guide will be published in March, with most of the work for the guide nearly complete now.

As a result, staff recommends no changes to either policy language or the timing of the annual review before HSC.

III. Requested Action

Review staff’s responses to Councilor Brown’s notes, recommend changes in the Financial Policies if any are desired. Any changes made by the Administrative Services Committee would be recommended for adoption by the City Council.

Review and Concur:



City Manager

attachments

1. Councilor Brown’s memo
2. Financial Policies

To: City Council
From: Dan Brown, Ward 4

February 7, 2011

Subject: Financial Policies Update

Today we are considering a recommendation from Administrative Services Committee about amendments to the Financial Policies. In my opinion, these minor housekeeping changes are not adequate in light of our forecasted future. This is the last ASC annual review before the Council will make budget decisions.

Motion: I move that the City Council send Financial Policies (CP 10.01) back to the Administrative Services Committee to consider "policy" in addition to "minor housekeeping changes" -- in the annual financial policies update.

Examples include those policies identified in I. through V. below.

I. 10.03.050 Utility Fees, (Water, Wastewater, Storm Water)

The City Council approved Sustainability Initiative Funding fees, but we have no financial policies regarding them. In order to be complete, we should have policies for these fees just as we do for other City Services Fees. In addition, the policy with regard to Franchise Fees (10.03.050.030) might be clarified relative to SIF.

II. 10.03.060 Parks and Recreation Department Fees

In recognition of expected constraints on property tax revenues for the next five years, the Council should carefully consider reconsider raising cost recovery percentages (10.03.060.010), especially for those where City support covers 50% or more. If users consider these services to be critical, they can be expected to contribute more to covering expenses, particularly those who do not have a "limited ability to pay" (10.03.040.020).

III. Increases in the City's Subsidy of Osborn

While the City's budget is requiring significant cuts, 10.03.060.021 is in the City's financial policies,

"The City's subsidy will be set by \$653,730 in FY 09-10, and will increase by 2% to 7% annually thereafter, subject to a staff analysis and recommendation regarding specific cost drivers (i.e. energy costs, minimum wage increases, infrastructure maintenance requirements);

This policy should be reconsidered in light of the upcoming operating levy which will cover the next three years. What does this policy mean in the case the levy fails? What does it mean if the levy passes?

Further, this subsidy policy should also consider economic conditions, overall personnel costs (not just minimum wage), and the City's ability to pay.

IV. Equipment Replacement Plans

In our recent budget discussions, we have considered tradeoffs between brownouts and equipment reserves for 2011-12. If budget deficits continue as forecasted, these discussions will be resurrected again in future years. I was on the Council a few years ago when we had to "pay the piper" after a previous Council had cut fire equipment reserves from annual budgets; the resulting fire equipment expenditures had a big impact on the annual budget. Fortunately we were not in the middle of a deficit then!

10.04.050.030 - replace "at least the financial planning period"
with "considering projected future budget deficits"

In the future, consideration for scheduling replacement shall include

g. the anticipated stream of future revenues

V. Rate Review

10.03.060.030 Rate Review states:

The Park and Recreation Department shall conduct an annual comprehensive review of rates including Osborn Aquatic Center rates. The Park and Recreation Advisory Board shall recommend to the City Council, via the Human Service Committee, any alterations or adjustments necessary in specific fees and/or charges to reflect . . . **concerns for other City operations.**

Since the HRC would be involved in adjusting rates and charges for the Osborn Aquatic Center, we should direct them to **expedite** their review so that it can be incorporated into the 2011-12 budget.

FINANCIAL POLICIES

Adopted November 27, 1989

Last Revised January 19, 2010

CP 10.01 FINANCIAL POLICIES PURPOSE AND OBJECTIVES

10.01.010 Purpose

Primary among the responsibilities of the City of Corvallis to its citizens is the care of public funds and wise management of municipal finances while providing for the adequate funding of the services desired by the public and the maintenance of public facilities. Municipal financial operations have a wide variety of oversight or standard setting agencies, including State and Federal governments, the Securities and Exchange Commission, and the Governmental Accounting Standards Board. The City of Corvallis manages public funds within all of these oversight agency requirements. These financial management policies, designed to ensure the fiscal stability of the City of Corvallis municipal corporation, provide guidance in financial management when oversight agencies are otherwise silent or to reiterate best practices that may be codified by another entity.

These financial policies address fund balances, revenues, expenditures, capital improvement, debt management, risk management, investments, and accounting and financial reporting.

10.01.020 Financial Policy Objectives

- 10.01.021 To protect the policy-making ability of the City Council by ensuring that important policy decisions are not controlled by financial problems or emergencies.
- 10.01.022 To enhance the policy-making ability of the City Council by providing accurate information on program costs.
- 10.01.023 To assist sound management of the City by providing accurate and timely information on financial condition.
- 10.01.024 To provide sound principles to guide the important decisions of the City Council and of management which have significant fiscal impact.
- 10.01.025 To set forth operational principles which minimize the cost of government and financial risk, and safeguard the City's assets.
- 10.01.026 To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
- 10.01.027 To provide adequate resources to operate and maintain essential public facilities and the City's infrastructure.
- 10.01.028 To protect and enhance the City's credit rating and prevent default on any debt issue of the City.
- 10.01.029 To insure the legal use of all City funds through a sound system of administrative policies and internal controls.

10.01.030 Achieving Financial Policy Objectives

10.01.030.010 Annual Analysis

To achieve and maintain the aforementioned objectives, the Finance Department, at the direction of the City Manager, will conduct an annual analysis of projected financial condition and key financial indicators. This budget capacity analysis shall be reviewed by the Budget Commission and the City Council prior to the budget process.

10.01.030.020 Focus of the Analysis

It is the focus of this analysis to:

- a. identify the areas where the city is already reasonably strong in terms of protecting its financial condition;

- b. identify existing or emerging problems in revenue sources, management practices, infrastructure conditions, and future funding needs;
- c. forecast expenditures and revenues for the next three to seven years, with consideration given to such external factors as state and federal actions, the municipal bond market, management options being explored and used by other local governments; and
- d. review internal management actions taken during the last budget cycle.

10.01.040 Review & Update

The Financial Policies shall be reviewed by the Finance Director annually in November and updated as appropriate.

CP 10.02 FUND BALANCE POLICIES

10.02.010 Fund Balance Definitions

10.02.010.010 The Governmental Accounting Standards Board (GASB) has defined fund balance for financial reporting to be classified as follows:

- a. Non-spendable: Amounts inherently non-spendable or that must remain intact according to legal or contractual restrictions.
- b. Restricted: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government, through constitutional provisions, or by enabling legislation.
- c. Committed: Amounts constrained by the City Council.
- d. Assigned: Amounts the City intends to use for a specific purpose. The authority to assign resources lies with the City's Finance Director.
- e. Unassigned: Amounts that are not categorized into one of the aforementioned classifications; these resources may be used for anything. Only the General Fund should show a positive unassigned fund balance. For other funds, a negative unassigned balance should be reported if more resources are used than are available in the fund.

10.02.010.020 The City of Corvallis will use the GASB's definitions of Fund Balance for the Comprehensive Annual Financial Report (CAFR) and for all other financial reporting. For all financial planning purposes, the term Budgetary Fund Balance will be used and will include any portion of the fund balance that is available for appropriation. Portions of the fund balance that are not available for appropriation will be identified as a Reserved Balance.

10.02.020 Budgetary Fund Balance

10.02.020.010 Introduction

The budgetary fund balance describes the net financial assets of governmental funds; in lay terms it represents the net revenues in excess of expenditures since the fund's inception. Fund balance is used to provide stable resources for times when service levels might otherwise be impacted by taxes or fees that temporarily underperform, or to cover one-time unexpected expenditures. As a best financial management practice, to maintain the City's credit rating, and to meet state law requirements for no deficit spending, the City shall have a positive budgetary fund balance for each fund of the City. Actual fund balances for each fund shall be reported in the Comprehensive Annual Financial Report, issued as of June 30 of each fiscal year. Budgetary fund balances shall be reported in the annual budget, and shall be projected for each operating fund as part of the financial planning process to prepare the budget each year.

10.02.020.020 Property Tax Funds Combined –Budgetary Fund Balance for Financial Planning Purposes

Prior to each year's initial Budget Commission meeting, the City Council shall review the Property Tax Funds – Combined fund balance for the purpose of determining whether resources exist to consider activities in 10.02.020.050. This review may include:

- a. determining the budgetary ending fund balance which may include a review of any restricted, committed, or assigned balances identified as reserves, and the potential ending fund balance that includes the Historic Norming Adjustment (HNA) that approximates the five-year average difference between budgeted and actual revenues and expenditures,

- b. preserving sufficient budgetary fund balance to cover at least three months' payroll expenses for the combined funds,
- c. establishing the time period over which to allocate any surplus budgetary balance for one-time or ongoing service enhancements,
- d. reserving funds for future year commitments and assumption modeling to determine if capacity exists based upon the Property Tax Funds -- Combined budgetary fund balance in the third year.

Results of this City Council review will be forwarded to the Budget Commission. Subsequent actions by the Budget Commission and/or the City Council may result in the budgetary ending fund balance for the Property Tax Funds being different than this recommendation.

10.02.020.030 Appropriate Budgetary Fund Balance

- a. Each operating fund shall have a positive budgetary ending fund balance for the budget year under discussion.
- b. Through the annual budget development process the Finance Director recommends the appropriate ending budgetary fund balance for each fund. The Finance Director shall take into account the following factors:
 - 1. the current budgetary fund balance;
 - 2. the City Council's recommended budgetary fund balance for the property tax funds combined;
 - 3. cash flow requirements to support expenditures, including up to three months of payroll costs;
 - 4. future capital needs;
 - 5. significant revenue and expenditure trends including the HNA;
 - 6. relative rate stability from year to year for enterprise funds;
 - 7. susceptibility of the fund to emergency or unanticipated expenditures;
 - 8. credit worthiness and capacity to support debt service requirements;
 - 9. legal or regulatory requirements affecting revenues, expenditures, and fund balances;
 - 10. reliability of outside revenues; and
 - 11. any other factors pertinent to that fund's operations.

10.02.020.040 Ending Budgetary Fund Balance Below Recommended

If the annual budget is recommended by the Budget Commission and accepted by the City Council to be adopted with a budgetary fund balance below either the minimum or the recommended ending budgetary fund balance, the budgetary ending fund balance for the then current fiscal year will be re-calculated as soon as the audit work for the prior fiscal year is complete. If at that point, the audited ending fund balance contributes to a budgetary fund balance which is lower than this policy would dictate, staff shall develop a plan for City Council consideration through the Administrative Services Committee, that addresses the shortfall.

10.02.020.050 Ending Budgetary Fund Balance Above Recommended

In the event the ending budgetary fund balance is higher than either the minimum or recommended level, the difference may be used to fund the following activities:

- a. one-time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs;
- b. undesignated assigned or committed balances for future basic operations;
- c. other one-time costs; and
- d. ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections of revenue and expenditures.

CP 10.03 REVENUE POLICIES

10.03.010 Introduction

The City of Corvallis raises revenue from a wide variety of sources. A significant portion of the City's revenues come from taxes, charges for service and fees. Some of these revenue sources are governed by the Oregon Constitution or Statutes,

federal law or regulations; others are assessed solely through the City's home rule authority. These policies provide direction in the management and oversight of existing revenue sources, and for the development of new revenue sources.

10.03.020 General Revenue Policies

10.03.020.010 The City will strive to maintain a diversified and stable revenue system to shelter the government from short-run fluctuations in any one revenue source and ensure its ability to provide ongoing service. In particular, the City will seek alternatives to the property tax for general government services.

10.03.020.020 Restricted revenue shall only be used for the purposes legally permissible and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated and accounted for as such.

10.03.020.030 Revenue for capital improvements shall be used to finance only those capital improvements identified in the funding plan (i.e., bond or grant funded projects) that are consistent with the capital improvement program and local government priorities, and where the operating and maintenance costs have been included in operating budget forecasts. Revenue restricted for specific purposes will be expended consistent with those restrictions.

10.03.020.040 One-time revenue includes fund balances and grants which have a specific time limit and/or reason for expenditure. One-time revenue will be used for one-time expenses whenever possible. If one-time revenue is considered for ongoing expenditures (such as adding staff) the Budget Commission or City Council will balance the need for the additional ongoing expenditures with the on-going ability to pay prior to approving the program.

10.03.020.050 Unpredictable revenue, which includes development related revenue such as Systems Development Charges (SDC), Public Improvement by Private Contractor fees, Development Review, Plan Review and Inspection Permit revenues, will be closely monitored through the year.

- a. Capital projects to be constructed with SDC monies will not be initiated until SDC revenue is available or another financing alternative is developed.
- b. Operations funded partially or wholly from unpredictable revenue will be monitored monthly and mitigating action will be taken if revenues are not received as expected.

10.03.020.060 The City shall manage its revenue collections through a policy that actively pursues collection of all revenues owed to the City.

10.03.030 Property Tax Allocations

10.03.030.010 Background

The property tax base was approved as a charter amendment by Corvallis voters to support the general services of the City. Additional tax levies to support fire operations and equipment purchases, street and road maintenance, recreation programs, and parks maintenance were approved as special charter amendments as early as 1909. Temporary levies were approved and re-approved for transit (first approved in 1980) and the Arts Center (first approved in 1970). Monies from these tax levies were segregated into the General, Street, Fire & Rescue, Parks & Recreation, Transit, and Special Levies (Arts Center) Funds and were combined with other revenues in each fund to provide the resources necessary to maintain services to the community.

The statutory authority to levy property taxes by individual levy was removed in 1997 through the passage of a constitutional amendment, and its implementing legislation, known as Measure 50. Measure 50 has resulted in a single property tax rate and has overridden the requirement that monies be segregated according to the charter. Local option levies for one to ten years in length can be approved by voters to fund operations. The five property tax funds are still allocated property taxes and remain segregated due to other dedicated revenue sources for specific programs in those funds.

10.03.030.020 Council Findings

- 10.03.030.021 Allocations of property taxes which follow the Charter approved proportions of the total levy would result in some funds incurring costs which exceed their revenues.
- 10.03.030.022 The projections of combined revenues and expenditures for all property tax supported funds indicates that a reallocation of property tax monies between funds would result in the ability to fund all operations and capital projects currently included in the financial and business plans for the next fiscal year.
- 10.03.030.023 If a local option levy is needed, the City Council shall weigh the services to be funded by a levy and determine whether it is better to go for a general levy or a special levy focused on certain service areas.
- 10.03.030.024 The Arts Center allocation shall remain at 0.42% of the total property taxes received.

10.03.030.030 Basis for Determining the Allocations

- 10.03.030.031 An analysis of the financial status of all property tax funds shall be reviewed by the City Council each year prior to the update of these financial policies to ensure that the allocations are adequate to support Council approved operating costs identified in:
 - a. The Capital Improvement Program;
 - b. Financial plans;
 - c. Department business plans; or
 - d. Master plans.
- 10.03.030.032 Program enhancements or new programs which are presented to the City Council or Budget Commission for review shall include an analysis of the impact of the new/enhanced program on the property tax allocation policy.
- 10.03.030.033 New revenue sources which could reduce the reliance on property taxes will continue to be sought, but will not necessarily result in a reduction of property taxes to the fund unless the new revenue is adequate to address all of the financial and business plans within the fund.

10.03.030.040 Allocation

Property taxes are allocated annually according to the Budget Commission and City Council direction through the annual budget process. This sets a projected demand for property taxes in each fund receiving them for the year. The Finance Director shall review this allocation and modify the actual allocation of funds as necessary during the course of each fiscal year to keep all funds in a positive budgetary fund balance position.

10.03.040 **Fees and Charges for Service**

Fees and charges for service are assessed to specific users where the user pays all or a portion of the costs to provide the service. When assessed as a fee, the charge generally grants the payer permission or a license to do a specific activity (i.e., franchise fees authorize use of the public right-of-way; a liquor license fee authorizes the license holder to sell liquor). When assessed as a charge for service, the charge is for a specific service, directly used by the payer (i.e., the admission fee at the swimming pool is only assessed to the person going swimming).

- 10.03.040.010 All fees and charges other than those identified elsewhere in City Council policy or via Corvallis Municipal Code shall be set to recover the City's direct expense in providing the attendant service. Fees and charges are reviewed annually, and are updated via Council action when necessary. A revenue manual listing all such fees and charges of the City shall be maintained by the Finance Department and updated concurrent with the review.
- 10.03.040.020 A fee shall be charged for any service that benefits limited interests within the community, except for basic, unavoidable human needs type services provided to persons with limited ability to pay.
- 10.03.040.030 Historically, the City Council has provided very limited tax and fee exemptions.

10.03.040.040 Systems Development Charges (SDC) are set to cover the growth related costs of infrastructure necessary to provide services for future growth. The list of projects eligible for SDC funding shall be updated when facility plans are updated or at least every five years, beginning in 2005, and will be done at all other times to coincide with major updates of infrastructure facility plans. The overall SDC program methodology and population service scenario shall be reviewed at least every ten years beginning in 2010.

10.03.050 Utility Fees (Water, Wastewater, Storm Water)

10.03.050.010 Utility Fee Basis

Utility user charges for each of the three City utilities will be based on the cost of providing the service (i.e., set to fully support the total direct, indirect, and capital costs) and are established so that the operating revenues of each utility are at least equal to its operating expenditures, reserves, debt coverage and annual debt service obligations, and planned replacement of the utility's facilities.

10.03.050.020 Annual Rate Review

Staff shall conduct an annual comprehensive rate review each fall for the Water, Wastewater and Storm Water funds for Council review. Rate increases will be targeted for implementation in February. Every effort shall be made to index/limit rate increases for the entire utility bill (water, wastewater, and storm water) to the rate of inflation (estimated at 2% to 3%) but not more than 7% in any one year unless federal or state mandate, judgment arising out of litigation, or Council approved policy needs dictate otherwise.

10.03.050.030 Rate Adoption

Utility rates will be adopted by ordinance and will be recorded in the Corvallis Municipal Code.

10.03.050.040 Franchise Fees

The City's Water, Wastewater, and Storm Water utilities will pay a franchise fee to the City's General Fund to compensate for the use of the public right-of-way. The franchise fee will be equal to 5% of the utility's gross operating revenue each year, net of interest, intergovernmental monies, miscellaneous water service fees, permit fees, SDCs, and turn-on service fees.

10.03.060 Parks and Recreation Department Fees

10.03.060.010 Cost Recovery

Parks and Recreation programs are funded through a combination of user fees, property taxes, grants, and donations. Fees and charges shall be assessed in an equitable manner in accordance with the following fee and charge assessment schedule. Programs that provide recreational opportunities for populations with the fewest recreational alternatives (youth, limited income, senior adults, and families) will be more heavily supported by grants, donations, or property taxes than user fees to ensure that the population is well served by Parks & Recreation programs. Percentages shall be considered as guidelines; however, special circumstances, the nature and cost of each program, and persons to be served should be taken into consideration.

a. total fee support (recover a minimum of 95% of direct program costs)

- special instruction classes (all ages)
- recreation trips and outings
- adult sports leagues
- major events which charge admission

b. partial fee support (recover 50% to 75% of direct program costs)

- outdoor recreation
- preschool programs/introduction
- child care oriented programs
- senior citizen programs

c. minimum fee support (recover 33% to 50% of direct program costs)

- youth programs and events
- playground programs

10.03.060.020 Osborn Aquatics Center Fees

The Osborn Aquatics Center direct costs are funded through fees charged for its usage plus a subsidy from property tax monies received in the Parks & Recreation Fund. The Aquatics Center shall pay its share of the general indirect costs charged to all City departments for centralized administrative functions.

10.03.060.021 The City's subsidy will be set at \$653,730 in FY 09-10, and will increase by 2% to 7% annually thereafter, subject to a staff analysis and recommendation regarding specific cost drivers (i.e. energy costs, minimum wage increases, infrastructure maintenance requirements); the actual rate of increase in the subsidy will be included in the Budget Summary each year. All costs in excess of this subsidy will be fee supported.

10.03.060.022 Fees for annual passes, open swim periods, instructional classes, etc. will be set to meet revenue requirements of the Aquatic Center, less all other revenue including the Parks & Recreation subsidy, rentals and concessions. Where possible fees will be comparable to similar publicly owned facilities in Oregon, taking into account the additional amenities offered at Osborn.

10.03.060.023 Rental fees for group usage (i.e., Corvallis Aquatic Team) shall be negotiated at a minimum of a 100% direct cost recovery rate or the rate of inflation based on the CPI-U whichever is greater.

10.03.060.024 Prices for concessions operated by the City shall be set at the wholesale price of the item plus at least 100%. Income from contracted concession services shall be determined based on the negotiated agreement between the City and the concessionaire. All monies from concessions will be used for operations at the Aquatics Center.

10.03.060.030 Rate Review

The Park and Recreation Department shall conduct an annual comprehensive review of rates including Osborn Aquatic Center rates. The Parks, Natural Areas and Recreation Board shall recommend to the City Council, via the Human Service Committee, any alterations or adjustments necessary in specific fees and/or charges to reflect service demand changes, the ability of users to support the demand, and concerns for other City operations.

10.03.060.040 Use of Volunteers

Through an aggressive volunteer recruitment program, the Parks and Recreation Department shall seek to minimize the subsidy required for partial and minimum fee support programs.

10.03.060.050 Alternate Funding Sources

Solicitation of funds through donations, fund raising events, non-traditional sources, and various other modes shall be encouraged by the Parks, Natural Areas and Recreation Board and other advisory committees. Funds collected for any special purpose shall be earmarked for that purpose.

10.03.070 Ambulance Fees

10.03.070.010 Policy

It is the intent of the City to provide responsive, efficient and self-funded emergency medical services as the Benton County designated service provider to the Benton County Ambulance Service Area, including all residents of the City.

10.03.070.020 Procedures for Rate Changes

- a. Staff shall review ambulance rates annually no later than February 28 to ensure the rates reflect changes in the direct costs of service. In reviewing rates, staff will consider the historic and projected costs of service, service demands, changes in fixed and variable costs, market rates, and changes in service requirements or mandates. The City shall

notify Benton County of proposed fee increases or decreases at the beginning of the City's formal budget review process.

- b. Proposed rate changes will be submitted to the City Council via the Administrative Services Committee for review and recommendation to the full Council no later than April 1 of each year. If no rate change is recommended, staff will note the fact in a Council Report.
- c. The Council shall adopt rate adjustments by resolution. Following Council adoption, the new rates will go into effect by July 1 of each fiscal year.
- d. Notification will be issued to the public 30 days prior to the July 1 deadline. Customers will be notified of rate changes via advertisements in the local newspaper.

10.03.070.030 Special Rate Reviews

If, at any time during the fiscal year, estimated costs of service exceed available revenue, the City Manager may conduct a special rate review. In conducting such reviews the City Manager would follow the above procedures. In this instance, rate adjustments could take place at any time within the fiscal year, with 30 days' public notice.

10.03.080 Grants

10.03.080.010 Grant Opportunities

The City shall aggressively pursue grant opportunities; however, before accepting grants, the City will consider the current and future implications of accepting the monies.

10.03.080.020 Federal Funds

Federal funds shall be actively sought. The City will use these funds to further the applicable national program goal. Because federal funds are not a guaranteed revenue source and are intended for a specific purpose, they will not be relied upon as an alternative source of capital improvement funds unless the federal grant is specifically for capital projects. Use of federal funds shall support City fund goals and services.

10.03.080.030 Grant Review

In reviewing grants the department director and Finance Director shall evaluate each grant offer and make their recommendation to the City Manager after considering:

- a. the amount of the matching funds required;
- b. in-kind services that are to be provided;
- c. length of grant and consequential disposition of service (i.e., is the City obliged to continue the service after the grant has ended?); and,
- d. the related expenditures including administration, record keeping, and auditing expenditures.

10.03.080.040 Single Audit

The annual audit by the City's independent auditors will include all required audit procedures for grant compliance as specified in the federal government's Office of Management and Budget OMB Circular A-133.

10.03.090 Gifts, Donations and Bequests

10.03.090.010 Use of Gifts, Donations & Bequests

Gifts, donations and/or bequests given to, and accepted by, the City for the use of any of its departments or divisions shall be used solely for the purpose intended by the donor. Unrestricted gifts will be expended on the recommendation of the related advisory board.

10.03.090.020 Evaluation

Gifts, donations, and bequests will be evaluated to determine what, if any, obligations are to be placed upon the City. Gifts, donations, and bequests will be considered as "over and above" basic City appropriations.

CP 10.04 EXPENDITURE POLICIES

10.04.010 Introduction

The City expends a significant amount of money each year to provide services to citizens. The largest portion of the expenditures are for the operating costs of the organization. These costs include all of the salaries/wages and related benefits for City staff, materials, services and capital outlays necessary to perform the basic functions of the City. Additional costs associated with capital projects (infrastructure) and debt service are part of the annual budget, based on specific plans for both. These City Council policies provide direction for developing the annual budget, and are in addition to a number of policies set forth by both the federal and state governments (i.e., purchasing rules, federal grant management rules).

10.04.020 Operating Budget -- Pay-As-You-Go

10.04.020.010 Pay-As-You-Go

The City shall attempt to conduct its operations from existing or foreseeable revenue sources. Achieving pay-as-you-go requires the following practices:

- a. current direct and indirect costs for operations and maintenance will be controlled and will be funded with current revenues, and
- b. revenue and expenditure forecasts will be prepared annually for all operating funds prior to budget discussions.

10.04.020.020 Cost Allocation Plan

The Finance Director shall prepare a full cost allocation plan triennially to provide accurate, complete estimates of indirect service costs. The plan will be updated annually during budget development.

10.04.020.030 Mandated Costs

Costs attributable to mandates of other government agencies shall be included in the annual budget.

10.04.030 Budget Balance

The Finance Director will prepare a budget for each fund each year where resources on a modified accrual basis either equal or exceed all expenditures in the City Council Adopted Budget in compliance with Oregon Administrative Rule 150-294.352(1)-(B)

- a. Resources available include all revenue anticipated in the budget year, including taxes, fees, charges for service, fines, intergovernmental payments, miscellaneous revenue, transfers, other financing sources, expendable reserves, and beginning fund balances.
- b. Expenditures include all planned expenditures for operations, inter-fund transfers, capital budget, debt service, Council Reserves and contingencies.

10.04.040 Budget Performance Reporting

10.04.040.010 Quarterly Reports

The Finance Director shall submit a Quarterly Operating Report (QOR) to the Budget Commission within 45 days of the close of the fiscal quarter. The QOR will be reviewed by the Administrative Services Committee and be accepted by the City Council. At a minimum, the QOR will include income statements developed on the modified accrual (budgetary) basis for all operating funds of the City, and may include other information such as the status of the City Council's Values and Goals and departmental performance information.

10.04.040.020 Performance Indicators

Where practical, the City shall develop and employ performance indicators that are tied to Council values and goals, as well as management objectives, to be included in the budget. Status of the measures will be reported in each Quarterly Operating Report.

10.04.050 Maintenance, Repair & Replacement

10.04.050.010 Master Plans

The City shall maintain master plans for all major infrastructure systems. Master plans provide direction about system needs (such as pipe size and reservoir locations) for predicted population build out of the community. Infrastructure master plans are required for Parks, Transportation, Water Plant, Water Distribution system, Wastewater Plant, Wastewater Collection system, Storm Water system, and the Airport. The master plans shall be adopted by the City Council as amendments to the City's Comprehensive Plan.

Projects identified via an infrastructure master plan will be scheduled based on the priority of the project as identified in the master plan and will be budgeted in the Capital Improvement Program (CIP) when resources are available to implement the project.

10.04.050.020 Annual Inventory

The City will conduct an inventory of all capital assets in conjunction with the annual audit. During the inventory, any excess wear and tear will be noted by staff and used to update replacement plans during the following budget preparation cycle.

10.04.050.030 Equipment Replacement Plans

Assets which are not part of a major infrastructure system or buildings and land, including vehicles, computers, and specialized equipment required for normal work (i.e., defibrillators, bullet proof vests), will be tracked by each department with replacement plans made for at least the financial planning period. These schedules will be updated annually in conjunction with the budget process.

Every effort will be made to develop an equipment replacement schedule that results in a stable annual spending level. If spending levels cannot be stable and would result in a significant dollar amount variance year-over-year, staff will set aside in reserves an amount each year adequate to fully fund the project in the future.

Consideration for scheduling replacement shall include:

- a. Age of the asset and its manufacturer's recommended useful life;
- b. Wear and tear on the asset;
- c. Environmental conditions which may shorten or lengthen the useful life of the asset;
- d. The cost/benefit to complete routine maintenance and delay replacement;
- e. Availability of service and/or parts; and
- f. The cost/benefit of early replacement with more efficient and/or less expensive technology.

10.04.050.040 Facility Maintenance

The facility maintenance schedule for major maintenance or replacement projects for all City-owned buildings will be updated annually. The primary goal of the plan is to complete maintenance projects prior to system failures that would cause a decrease in service levels to citizens. Criteria for including projects are the same as those identified in 10.04.050.030.

10.04.050.050 Maintenance Costs from the CIP

Projects included in the proposed CIP will identify the anticipated operating costs or savings associated with the project. Estimated operating costs from CIP projects will be included in all years of the financial plan for the appropriate fund prior to approval of the CIP by the CIP Commission, Budget Commission or City Council.

10.04.060 Personal Services

10.04.060.010 Compensation Rates

The City of Corvallis shall strive to pay fair total compensation to its employees, in balance with the City's reasonable ability to pay and to provide services to the community in accordance with City Council goals and priorities. Total compensation includes both salary and fringe benefit levels. The City Council has adopted Council Policy 91-3.02 which identifies how total compensation rates will be determined.

10.04.060.020 Compensation Survey

The City shall conduct compensation surveys, both internally and of similar positions in comparable cities as necessary. These surveys shall be the basis for determining fair total compensation in accord with Council Policy and state law.

10.04.060.030 Work Force Changes

The City's work force, measured in FTE (full time equivalent) shall not fluctuate more than 2% annually without corresponding changes in service levels or scope.

10.04.060.040 Cost Analysis

In establishing pay rates a cost analysis of rate increases will be conducted and shall include the effect of such increases on the City's share of related fringe benefits and unfunded liabilities (including non-salary related benefits), impact on total compensation, the City's ability to pay, and the reasonable cost to provide City services in accordance with City Council goals and priorities.

10.04.060.050 Benefits

Long term costs of changes in benefit packages shall be estimated as well as their impact on total compensation, and this information shall be fully disclosed to the City Council before negotiated labor agreements are affirmed. Benefits are considered in the context of total compensation, the City's ability to pay, and the reasonable cost of providing City services.

10.04.070 Transfers

10.04.070.010 General Fund Transfers

To the maximum extent feasible and appropriate, General Fund transfers to other funds shall be defined as payments intended for the support of specific programs or services. Amounts not needed to support such specific program or service expenditures shall be transferred back to the General Fund, unless Council directs the transfer to be used for other purposes.

10.04.070.020 Transfer Reconciliation & Cash Flow

Transfers for specific programs or projects, or to support special operations, should occur on the basis of cash flow needs of the program or service being supported. A reconciliation of actual transfers against budgeted transfers will be included in the year-end audit process.

10.04.070.030 Advances

Where it is necessary to make a one-time advance of General Fund monies to another fund, this action shall occur under the following conditions:

- a. The advance is reviewed, prior to the transfer of funds, by the Administrative Service Committee.
- b. All excess cash balances in the fund receiving the advance shall be invested for the benefit of the General Fund, if allowed by federal and state law and regulations, as long as the advance is outstanding.
- c. Should the borrowing fund accumulate an unexpected unrestricted balance, this excess shall be used first to repay the advance.
- d. At the time of closing out the fund, assets net of liabilities of the fund equaling the unpaid portion of the advance revert to the General Fund, if allowed by federal, state or local law.

- e. For short-term cash deficits in funds other than the General Fund during the course of the year, short-term loans are preferred to advances, except in cases where the receiving fund is legally precluded from paying interest on loans, or where loan transactions would be too numerous and costly to be cost effective.

10.04.080 Contingency

10.04.080.010 Contingency Amount

To meet emergency conditions, the budget shall provide for an appropriated contingency of at least 2% of estimated annual operating revenues. All governmental and enterprise funds shall maintain a contingency. The contingency shall be exclusive of all reserves.

10.04.080.020 Contingency Use

Use of the contingency should be infrequent and for unanticipated expenditures such as costs associated with a response to a disaster, or to meet unanticipated increases in service delivery costs. The City Council must authorize expenditure of any contingencies via a resolution.

10.04.080.020 Contingency in Excess of 2%

The Finance Director may recommend a contingency in excess of 2% of current revenue in specific funds to address specific needs. When this occurs, the Finance Director will provide the Budget Commission and City Council with information regarding the reasons for the recommendation.

10.04.080.030 Contingency Below 2%

Where correction of a fund balance deficit causes the contingency to be budgeted below 2% of operating revenue, a gradual correction of the problem over a two year period is preferable to a one-time jump in rates, or substantial decreases in other expenditure plans.

CP 10.05 Capital Improvement Program (CIP)

10.05.010 Introduction

The City has a significant investment in the infrastructure necessary for the general public's use. The infrastructure systems – streets, bikeways and sidewalks, water treatment plants and distribution system, wastewater treatment plants and collection system, storm water conveyance system, airport, parks, recreation facilities, and open spaces, and municipal facilities – are important to the general well-being of the community. The City maintains and enhances the infrastructure systems by developing long-term plans and securing the funding necessary to implement the plans. The Capital Improvement Program is developed to advise the community of the plans for maintaining the public investment, and to ensure the resources are available to invest when the community requires them. These policies provide direction for the development of the annual CIP.

10.05.020 Capital Improvement Program

10.05.020.010 Definition of a Capital Project

A capital project must:

- a. Cost more than \$10,000, and
- b. be a permanent addition to the capital assets of the City, and
- c. purchase land, or
- d. construct a new building, or
- e. remodel or add to an existing building, or
- f. construct/install public infrastructure, or
- g. replace existing infrastructure.

For any project which meets the definition of a capital project, all costs for the project including design, land or right-of-way acquisition, appraisals, construction, construction management, furnishings, and legal or administrative costs will be included in the project budget.

10.05.020.020 Five-year CIP

A five-year Capital Improvement Program (CIP) shall be developed and presented annually by staff to the CIP Commission, reviewed by the Planning Commission for compliance with the comprehensive plan, reviewed by the Budget Commission for compliance with long-term financial plans, and approved by the City Council. This plan shall contain all capital improvements from all funds and departments of the City. The first year of the plan shall constitute the next year's capital budget.

10.05.020.030 Existing Assets

A high priority shall be placed on repair or replacement of capital assets when such assets have deteriorated to the point of becoming hazardous, incur high maintenance costs, are negatively affecting property values, and/or are no longer functionally serving their intended purposes.

10.05.020.040 Construction Standards

Capital improvements constructed in the City shall be designed and built based on published construction standards which shall be periodically updated by the City Engineer. The construction standards will assure projects are built with an acceptable useful life and minimum maintenance costs.

10.05.030 Capital Improvement Maintenance

10.05.030.010 Maintenance Standards

Standards of maintenance to adequately protect the City's capital investments shall be developed and periodically updated. The annual budget will be prepared to meet established maintenance schedules.

10.05.030.020 Operating Budget Impacts

Future operating budget impacts for new capital facilities will be analyzed and estimates included in all years of the financial plans as part of considering a proposed capital project.

10.05.040 Capital Improvement Financing

10.05.040.010 Appropriate Funding

Within the limitation of existing law, various funding sources may be used for capital improvements. When capital projects are proposed, appropriate funding will be identified.

10.05.040.020 Unspent Funds

Upon completion of capital projects, the Finance Director shall certify any unspent funds from the project. The most restrictive project revenues shall be used first so that unused funds will have the fewest restrictions on future use. Unspent capital project funds, except bond funds, shall be returned to their original source. If there are unspent funds from a bond issue, those monies will be allocated according to stipulations in the bond indenture. In no case shall projects incur a funding deficit without the express approval of the City Council.

10.05.040.030 Interest Earnings in the Capital Construction Fund (governmental fund)

10.05.040.031 Interest earnings shall be allocated to each project based on the project's proportion of the cash balance in the fund. Projects which have a negative cash balance due to timing of reimbursements of grants or loans will not accrue interest revenue or an interest expense.

10.05.040.032 Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions.

- 10.05.040.033 Interest earnings not otherwise limited will be considered the most restricted City funds in the project and will be spent first in compliance with Financial Policy 10.04.050.030.
- 10.05.050.040 Interest Earnings in the Proprietary Fund Construction Components
- 10.05.050.041 Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions.
- 10.05.050.042 All non-restricted interest earnings will be accrued to the operating fund and will be available to spend on either operations or future capital projects.

10.06 Debt

10.06.010 Introduction

The City of Corvallis operates on a pay-as-you go basis for most capital investment. Systems Development Charge revenue is used to fund capital investments that are required to increase the capacity of the City's infrastructure. Reserves are built over time, or grants are sought to fund some capital investments. However, from time-to-time the City plans for a capital improvement project which is too expensive to finance with cash reserves or needs to be completed before reserves can be developed. When this occurs, the City borrows monies. These policies, along with state and federal laws, govern when and how the City will proceed in the debt market.

10.06.020 Use of Debt Financing

10.06.020.010 Long-term Debt

The City of Corvallis shall only use long-term debt for capital projects that cannot be financed out of current revenues within the Revenue Policy guidelines for rate increases. Debt financing shall generally be limited to one-time capital improvement projects and only under the following circumstances:

- a. when the project's useful life is greater than or equal to the term of the financing;
- b. when project revenue or specific resources will be sufficient to service the debt; and,
- c. when the project will benefit the citizens of Corvallis.

10.06.020.020 Use of Debt Financing

Debt financing shall not be considered appropriate for:

- a. Current operating and maintenance expenses (except for issuing short-term instruments such as revenue anticipation notes or tax anticipation notes); and
- b. Any recurring purpose (except as indicated above).

10.06.020.030 Tax/Revenue/Bond Anticipation Notes

Tax and revenue anticipation debt will be retired within the fiscal year issued, and bond anticipation notes will be retired no later than six months after the completion of the project.

10.06.020.040 Short-term Debt

Short-term debt outstanding at the end of the year will not exceed 5% of net operating revenues (including tax anticipation notes but excluding bond anticipation notes.)

10.06.030 Limits on Debt Issuance

10.06.030.010 Vote to Issue General Obligation Debt

The issuance of general obligation bonds requires an affirmative vote of a majority of electors voting. Constitutional limitations implemented by Measure 50 address voter requirements. For elections in May and November a simple majority of

votes is required. For all other elections, a simple majority of registered voters must vote in the election, and of those voting a simple majority must vote affirmatively.

10.06.030.020 Statutory General Obligation Bond Debt Limits

Oregon Revised Statutes chapters 287 and 288 limit the outstanding general obligation principal indebtedness of the City other than bonds issued for water, sanitary or storm sewers to 3% of the true cash value of the taxable property within the City.

10.06.030.030 Council Imposed Debt Limits

The annual general obligation debt service for long-term issues (greater than five years), where the debt service is paid from property tax sources, shall not exceed 15% of the combined operating and capital budgets in the Governmental funds.

10.06.030.040 Limited Tax General Obligation Bonds

The outstanding principal debt for Limited Tax General Obligation Bonds (LTGO), non-self-supporting leases, and full faith and credit lease purchases, is limited to 1% of the true cash value of the taxable property in the City. Furthermore, annual debt payments shall not exceed 5% of the combined operating and capital budgets in the Governmental Funds.

10.06.030.050 Revenue Bonds

Revenue secured debt obligations will be undertaken only after a study of the projected operating, maintenance, debt service and coverage requirements and the impact of these requirements on user rates has been completed. The outcome of the study will be shared with the City Council prior to issuing the debt.

10.06.040 Debt Issuance

10.06.040.010 Timing of Debt Issuance

The timing for each debt issue in association with the construction schedule will be carefully considered, using the following criteria:

- a. Projected cash flow requirements for the capital project;
- b. Cash reserves on hand to temporarily fund preliminary project expenses;
- c. Spend down schedules identified by the IRS to meet arbitrage limitations; and
- d. Market conditions.

10.06.040.020 Competitive Sale

All bonds will be sold at competitive sale unless it is in the City's best interest to sell at a negotiated sale. The City reserves the right to reject any and all bids at a competitive sale and sell the bonds at a negotiated sale if it is in the best interest of the City of Corvallis to do so.

10.06.040.030 Refunding Bonds

Refunding bonds may be authorized by the City Council providing the issuance complies with the rules adopted by the State Treasurer and outlined in Oregon Revised Statutes.

10.06.040.040 Annual Debt Payment Limits

To maintain the City's credit rating and expenditure flexibility, the annual debt service payments the City must make on net direct long-term general obligation debt shall not exceed 10% of operating revenue. To achieve this goal, on a per issue basis, the City will structure its debt to pay no less than 33% of the principal on bonds sold during the first half of the repayment term.

10.06.040.050 Overlapping Debt

City staff shall endeavor to notify the City Council of the debt issuance plans of the City's overlapping taxing jurisdictions and the possible impact such debt plans may have on the City's debt capacity.

10.06.040.060 Investment of Bond Proceeds

Receipt of bond proceeds will be timed to occur in conjunction with construction. However, it is acknowledged that in most cases bond proceeds will not be fully expended as soon as they are received. The City shall invest the proceeds from debt issuance in the legally authorized investment instruments for local governments in Oregon to maximize interest earnings available for the capital project. Prior to choosing an investment instrument, staff will take into consideration projected cash flow of the project and the likelihood that Internal Revenue Service (IRS) spend down targets will be met or exceeded. The investment instrument(s) shall be chosen to maximize interest earnings and minimize any arbitrage penalties which may accrue within the established IRS regulations.

10.06.050 Leasing

Lease purchase financing shall be considered only when the useful life of the item is equal to or greater than the length of the lease, and a lease purchase is the most economical method of purchasing available. If the item may become technologically obsolete or is likely to require major repair during the lease purchase period, then the item should be either purchased with cash or placed on an operating lease.

10.06.060 Rating Agency Relationship

10.06.060.010 Reporting

The City shall maintain good communication with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.

10.06.060.020 Compliance with SEC Rules

The City will comply with all aspects of the Securities and Exchange Commission rule 15c2-12 pertaining to secondary market disclosure.

10.06.070 Debt Management Plan

10.06.070.010 Debt Management Plan

A Comprehensive Debt Management Plan shall be developed and updated prior to the issuance of any additional debt. The Comprehensive Debt Management Plan shall encompass all debt of the City including, but not limited to:

- a. detail of the sources of funding for all debt;
- b. current and future debt capacity analysis;
- c. issues to be addressed for sound debt management;
- d. a contingency debt plan should any of the funding sources become unavailable in the foreseeable future; and
- e. reporting as to the City's compliance with its debt policies.

10.06.070.020 Review

The Administrative Services Committee shall review the Comprehensive Debt Management Plan prior to the issuance of new debt and any recommendations made therein.

CP 10.07 RISK MANAGEMENT

10.07.010 Introduction

The City of Corvallis' basic operations have certain risks associated with them, which could have a significant financial impact if the risks were not managed. Risk Management policies are designed to identify and assess the risks, change factors

that can be changed to reduce risks, ensure that risk is transferred to others when appropriate, and provide insurance to mitigate against losses. These policies set forth the over-arching guidance for the City's risk management functions.

10.07.020 Risk Management Report

The City Manager shall annually prepare a Comprehensive Risk Management Report, including but not limited to:

- a. a summary of the past year's risk management claims,
- b. an identification of current and potential liability risks or activities potentially impacting the City's finances,
- c. specific strategies to address the risks identified, and
- d. a summary of the past year's safety and violence in the workplace activities.

10.07.030 Risk Management Program

The City shall implement and maintain a Risk Management program designed to decrease exposure to risk. At a minimum, the program shall include:

- a. a safety program that emphasizes reducing risks through training and safe work habits,
- b. an annual examination of the City's insurance program to evaluate how much risk the City should assume, and
- c. other risk management activities, including review of all City contracts with respect to indemnification and insurance provisions.

10.07.040 Risk Management Fund

10.07.040.010 Purpose

The Risk Management Fund shall be used to provide for insurance coverage, uninsured losses in excess of \$500, safety program expenses, and prudent reserves, contingencies and fund balances.

10.07.040.020 Catastrophic Reserves

The targeted balance for unappropriated catastrophic reserves shall be \$500,000 each year. Appropriated catastrophic reserves which are drawn down will be rebuilt the following fiscal year. Unappropriated catastrophic reserves which are drawn down below the recommended target will be re-built at the rate of a minimum of 33% of the deficit balance per year over three years, or sooner if practical.

10.07.040.030 Unreserved Fund Balance Target

The unreserved fund balance target for the Risk Management Fund shall be \$40,000. Should the ending fund balance drop below \$40,000 in any fiscal year, it will be re-built the following year. Ending unreserved balances in excess of \$40,000 will be used as a dividend to departments if the catastrophic reserves are fully funded or can be used as funding for additional expenditures in the safety program as directed by the City Manager and appropriated within the following budget year. If the excess is used as a dividend to departments, the funds will be returned to departments based on experience.

CP 10.08 INVESTMENTS

10.08.010 Introduction

The City holds cash balances as part of its operations. The City invests balances in excess of daily needs in a variety of investment instruments. These policies establish and provide guidelines for the safe and efficient management of City funds, and the purchase and sale of investment instruments. The goal is to minimize risk and ensure the availability of cash to meet expenditures, while minimizing idle funds. These policies provide direction for managing the City's investments.

10.08.020 Scope

10.08.020.010 Application of Policy

These investment policies apply to all cash-related assets within the scope of the City's audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to regulations established by the State of Oregon.

10.08.020.020 Pooled Cash

The City of Corvallis will make use of pooled cash to invest under the prudent investor rule. The rule 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."

10.08.030 Objectives

The City's investment objectives are:

- a. Preserve capital and protect investment principal,
- b. Conform with federal, state and other legal requirements,
- c. Maintain sufficient liquidity to meet operating requirements,
- d. Diversify to avoid incurring unreasonable risks regarding specific security types or individual financial institutions,
- e. Attain a market rate of return throughout budgetary and economic cycles,
- f. Invest with the intent to hold until maturity.

10.08.040 Responsibility

10.08.040.010 Authority

The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day-to-day operations of the City's investment portfolio, place purchase and sell orders with dealers and financial institutions, and prepare reports as required.

10.08.040.020 Investment Council

To assist the City Manager in carrying out this management responsibility for the investment program, the Investment Council has been created. The Investment Council shall be composed of the City Manager, the Finance Director, the City Attorney, and a citizen of the City of proven integrity and business ability. The City Council President, or the Council Vice-President if the Council President is unable to serve, shall serve ex-officio as a voting member.

10.08.040.030 Investment Council Charge

The Investment Council is responsible for providing advice with respect to the investment decisions, activities, and establishment of written procedures for investment operations. Monitoring of the portfolio shall be performed by the Investment Council at least quarterly and verified by the City's independent auditor at least annually. The Investment Council shall review investment reports, investment strategies, investment holdings, banking relationships, and the legality and probity of investment activities.

10.08.040.040 Investment Council Meetings

The Investment Council shall meet quarterly. At each meeting, the Investment Council reviews investment reports submitted by the City Treasurer reflecting investment activity for each of the immediately preceding three months. Acceptance of the report must be unanimous. Should the reports not be accepted, the reports shall be revised accordingly by the City Treasurer and resubmitted to the Investment Council at its next regularly scheduled meeting or sooner if requested.

10.08.040.050 Investment Maturity Matches Cash Flow

Recognizing that the City's need for funds is not constant, the City Treasurer should schedule investments in coordination with all funds such that there is as little idle cash as practical, consistent with the projected cash flow budget.

10.08.040.060 Administrative Investment Policy

The City Treasurer shall annually update the City's administrative policy for investments, to be reviewed and approved by the Investment Council prior to adoption. Significant changes to the Investment Administrative Policy shall be submitted to the Oregon Short Term Fund Board for review after City Manager approval.

10.08.050 Investment Instruments/Vehicles

10.08.050.010 Investment Instruments

Funds of the City of Corvallis must be limited to those investments allowed by the statutes of the State of Oregon and as identified in the Investment Administrative Policy.

10.08.050.020 Investment Diversification

Funds of the City of Corvallis will be invested in accordance with diversification by financial institution, investment type, and maturity as outlined in the Investment Administrative policy.

10.08.060 Reporting Requirements

10.08.060.010 Annual Reports

The City Treasurer shall submit an annual statement certifying compliance with the Investment Administrative Policy to the Investment Council, noting compliance throughout the most recently completed fiscal year. This statement shall be filed by August 1 of each year.

10.08.060.020 Monthly Reports

The City Treasurer shall provide the Investment Council with a Monthly Investment Report reviewing the compliance with the Investment Administrative Policy and providing data on investment instruments being held, as well as any narrative necessary for clarification. The Monthly Investment Report shall include summary information about all investments held in the City's portfolio as of the end of the month, and shall be issued and posted on the City's web site within 21 days after the end of the monthly reporting period.

CP 10.09 ACCOUNTING AND FINANCIAL REPORTING

10.09.010 Introduction

The City of Corvallis maintains a system of financial management that ensures transactions are appropriately recorded, assets are managed for the benefit of the community, risk of fraud or financial loss is identified and internal controls are developed and maintained to manage the risk. The financial markets and other interested parties rely on the City's annual financial statements to ensure Corvallis bondholders the City's financial condition will allow the City to continue to make all required debt payments. As a result, it is critical that the City's financial condition is reported accurately and timely. These Accounting and Financial Reporting policies have been developed to meet these goals.

10.09.020 Internal Controls

10.09.020.010 Internal Control System

The City shall establish and maintain a process that is designed to provide reasonable assurance that the City is achieving the following objectives:

- a. effective and efficient operations,
- b. reliable and accurate financial information,

- c. compliance with applicable laws and regulations, and
- d. safeguarding assets against unauthorized acquisition, use, or disposition.

10.09.020.020 Annual Audit

The City shall hire an independent external auditor to perform an annual audit of the financial statements, including tests of the internal controls. It is the City's objective that the financial statements receive an unqualified opinion, an opinion in which the auditor can state, without reservation, that the financial statements are fairly presented in conformity with GAAP.

10.09.030 Financial System

10.09.030.010 Purpose of the Financial System

The financial system shall be used as the means of recording and reporting financial transactions in a way that will assist users in assessing the service efforts, costs and accomplishments of the City.

10.09.030.020 Financial System Characteristics

The City's accounting and reporting system shall demonstrate the following characteristics:

- a. reliability,
- b. accuracy,
- c. consistency,
- d. timeliness,
- e. efficiency,
- f. responsiveness,
- g. compliance with legal requirements, and
- h. compliance with generally accepted accounting principles (GAAP).

10.09.030.030 Funds

By Council resolution, the City shall establish and maintain only those funds that are necessary by law and for sound financial administration. The funds shall be structured in a manner consistent with GAAP, to maximize the City's ability to audit, measure and evaluate financial performance. The fund structure will be reviewed annually and the Finance Director will recommend changes to improve compliance with Council policies, financial planning, resource allocation and service delivery will be made to the City Manager at the beginning of the annual budget process.

10.09.040 External Financial Reporting

10.09.040.010 Comprehensive Annual Financial Report (CAFR)

The City shall annually prepare and publish, by December 31st of each year, a Comprehensive Annual Financial Report (CAFR) in conformity with generally accepted accounting principles. The CAFR shall include but not be limited to:

- a. an explanation of the nature of the reporting entity,
- b. the extent of activities conducted by the City,
- c. comparison of actual activity to adopted budget,
- d. an explanation of the City's fiscal capacity,
- e. disclosure of short and long term liabilities of the City,
- f. capital assets reporting,
- g. cash policies and compliance reporting,
- h. accounting policies, controls and management responsibilities, and
- i. all other disclosures required by GAAP.