

Adopted Operating and Capital Budget FY 2009

Financial Policies

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**ADOPTED OPERATING AND CAPITAL BUDGET FY 2008
FINANCIAL MANAGEMENT POLICIES**

Section 2-2 Financial Management Policy (Adopted 3/11/97 by Resolution 97-19)

Policy I
Fund Balance

- 1.01 The City of Fredericksburg's Undesignated General Fund Balance will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
- 1.02 The Undesignated General Fund Balance should not be used to support recurring operating expenditures outside of the current budget year. If a budget variance requires the use of Undesignated General Fund Balance the City will increase its General Fund revenues and/or decrease its expenditures to prevent using the Undesignated General Fund Balance two consecutive fiscal years in a row to subsidize General Fund operations.

The Undesignated General Fund Balance will be provided as follows:

- 1.03 The Undesignated General Fund Balance goal will be twelve percent (12%), but not less than seven percent (7%), of the actual General Fund revenues for the preceding fiscal year. These funds can only be appropriated by a resolution of the City Council.
- 1.04 In the event the Undesignated General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the City shall restore the Undesignated General Fund Balance to seven percent (7%) of the actual General Fund revenues for the preceding year within two fiscal years following the fiscal year in which the event occurred. To the extent additional funds are necessary to restore the Undesignated General Fund Balance to twelve percent (12%) of the actual General Fund revenues for the preceding fiscal year, such funds will be accumulated in no more than five approximately equal contributions each fiscal year. This will provide for full recovery of the targeted fund balance amount within five years following the fiscal year in which the event occurred.
- 1.05 In the event that the Undesignated General Balance exceeds the twelve percent (12%) target described in 1.03 above, or available revenues exceed the annual deposits required in 1.04 above, then City Council may consider appropriating such funds for "pay as you go" capital outlay expenditures, other non-recurring expenditures, or supplemental reserves as deemed necessary by City Council.

Policy II
Fiscal Planning

- 2.01 The City Manager shall submit to the City Council a proposed annual budget, with his recommendations, and shall execute the budget as finally adopted, pursuant to the requirements of Title 15.1 of the Code of Virginia, as amended.
- 2.02 The City Manager will budget revenues and expenditures on the basis of a fiscal year which begins July 1 and ends on the following June 30.
- 2.03 The City Manager shall provide annually a Budget Preparation Schedule outlining the preparation timelines for the proposed budget.
- 2.04 Budget packages for the preparation of the budget, including forms and instructions, shall be distributed to City departments to complete. Department officials shall prepare and return their budget proposals to the office of the Assistant City Manager.
- 2.05 The proposed budget will contain the following:
- A) Revenue estimates by major category;
 - B) Expenditure estimates by program levels and major expenditure categories;
 - C) Debt service summarized by issues detailing principal and interest amounts by fund.
- 2.06 The proposed budget will also contain information regarding:
- A) Proposed personnel staffing levels;
 - B) A detailed schedule of capital projects;
 - C) Any additional information, data, or analysis requested of management by the City Council.
- 2.07 The proposed budget will be balanced.
- 2.08 The City Council will adopt the budget no later than June 30.
- 2.09 A monthly report on the status of the general fund budget will be prepared by the Fiscal Affairs Department and presented to the City Council within 15 days of the end of each month.
- 2.10 Budgeting procedures will attempt to identify distinct functions and activities and to allocate budget resources to perform these functions and activities as required.

- 2.11 Alternatives for improving the efficiency and effectiveness of the City's programs and the productivity of its employees will be considered during the budget process.
- 2.12 Duplication of services and inefficiency in delivery should be eliminated wherever they are identified. The City will continue to examine alternative service delivery options for all City functions.
- 2.13 Performance measurement and productivity indicators will be integrated into the budget process as appropriate.
- 2.14 For multi-year projects, the appropriated by as yet unencumbered and encumbered balances will be considered for re-appropriation in the subsequent fiscal year in a resolution amending the adopting budget.
- 2.15 The City will fund current expenditures with current revenues and other recurring funding sources.
- 2.16 If a deficit is projected during any fiscal year, the City will take steps to reduce expenditures, increase revenues, or consider using the Undesignated General Fund Balance in accordance with Policy I, to the extent necessary to ensure a balanced budget at the close of the fiscal year.
- 2.17 The City will annually appropriate a Contingency Budget to provide for increases in service delivery costs and unanticipated needs that may arise throughout the fiscal year.
- 2.18 The City will follow the bid policy pursuant to the requirements of Chapter 2, Article XII of the City Code.

Policy III
Revenues and Collections

- 3.01 The City's goal is a diversified revenue system balanced between real estate, personal property, sales taxes and other revenue sources.
- 3.02 The City will monitor all taxes to insure they are equitably administered and collections are timely and accurate. Fees and charges should be based on benefits and/or privileges granted by the City, or based on costs of a particular service.
- 3.03 Periodically, the City will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other attendant costs. It is recognized that, on occasion, competing policy objectives may result in user fee levels that recover only a portion of service costs.

- 3.04 The City will assess all real property annually as of July 1, and assess all personal property annually on January 1. Real property assessments shall be based on market value and follow standards established by the International Association of Assessing Officers. Personal property assessments shall be based on the average trade-in value as supplied by a nationally recognized organization, or a percentage of original cost that reasonably estimates market value.
- 3.05 The City will provide, as appropriate, funding or tax exemptions to churches, governmental entities and other eligible organizations pursuant to the state and local guidelines. The City will process all requests for tax exemption status pursuant to the appropriate statute cited in the Code of Virginia.

Policy IV

Capital Improvement Program and Fixed Assets

- 4.01 The City Manager will annually submit a Capital Improvement Program for review by the City Council pursuant to the time line established in the annual Budget Preparation Schedule. Submission of the Capital Improvement Plan shall be consistent with the requirements of title 15.1 of the Code of Virginia.
- A) An implementation program for each of the capital improvements.
 - B) A statement of the objectives of the Capital Improvement Program and the relationship with the comprehensive plan.
 - C) An estimate of the cost of and the anticipated sources of revenue for financing the Capital Improvement Program and an estimate of the impact of each capital improvement on City revenues and future operating expenses.
 - D) An estimated debt service schedule for any debt anticipated as a source of funds for the Capital Improvement Program.
- 4.02 The City will maintain a schedule of fixed assets in its fixed asset accounting system.
- 4.03 Upon completion of any capital project, remaining appropriated funds in that project will be returned to the undesignated capital project fund balance.

Policy V
Debt Management

- 5.01 The City will not use long-term debt to fund current operations and will continue to emphasize “ pay as you go” capital financing, where practical.
- 5.02 The City will not use tax anticipation notes (TRANs) to fund current operations.
- 5.03 The City does not intend to issue bond anticipation notes (BANs) for a period longer than three years.
- 5.04 The issuance of variable rate debt by the City will be subject to careful review and will be issued only in a prudent and fiscally responsible manner.
- 5.05 Whenever the City finds it necessary to issue bonds, the following policy will be adhered to:
 - A) General Fund supported debt will not exceed 4.8% of the assessed valuation of real property in the City.
 - B) The term of any bond issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.
- 5.06 The City shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
- 5.07 The City shall comply with all requirements of Title 15.1 of the Code of Virginia and other legal requirements regarding the issuance of bonds and certificates of the City or its debt issuing authorities.

Policy VI
Cash Management

- 6.01 The City shall invest all funds of the City according to four criteria, in order of their importance: (1) legality, (2) safety, (3) liquidity, (4) yield.
- 6.02 The City will collect, deposit and disburse all funds on a schedule which insures optimum cash availability.
- 6.03 All City bank accounts shall be reconciled on a timely basis.
- 6.04 The City will optimize the amount of funds available for investment by rapid collection of money owed to the City. Cash invested shall, at a minimum, equal 100% of total bank cash balances.

- 6.05 The City will conduct its treasury activities with financial institution(s) based upon written contracts.

Policy VII
Personnel

- 7.01 At no time shall the number of permanent full-time employees on the payroll exceed the number of positions authorized by the City Council. All Personnel actions shall be in strict conformance with applicable federal and state law and all City ordinances and policies.
- 7.02 The City Manager may institute a cessation during the fiscal year on hirings, promotions, and transfers for the purpose of expenditure control. Such action will not be used arbitrarily and without knowledge and support of the City Council and will allow for exceptions in appropriate areas to comply with emergency needs such as a loss or decline in a major revenue source or natural disaster.

Policy VIII
Accounting, Auditing and Financial Reporting

- 8.01 The City will comply with generally accepted accounting principles (GAAP) in its accounting and financial reporting, as contained in the following publications:
- A.) Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standard Board (GASB)
 - B.) Pronouncements of the Financial Accounting Standards Board, (FASB)
 - C.) Governmental Accounting, Auditing, and Financial Reporting (GAAFR), issued by the Government Finance Officers Association (GFOA) of the United States and Canada.
 - D.) Uniform Financial Reporting Manual for Virginia Counties, prepared by the Commonwealth of Virginia Auditor of Public Accounts (APA).
 - E.) Audits of State and Local Governmental Units, an industry audit guide published by the American Institute of Certified Public Accounts (AICPA).
 - F.) Government Accounting Standards, issued by the Controller General of the United States.
- 8.02 Monthly financial reports will be issued to all agency administrators summarizing financial activity comparing actual revenues and expenditures with budgeted amounts.

- 8.03 A comprehensive financial audit including an audit of federal grants according to the Single Audit Act of 1984 will be performed annually by an independent public accounting firm. The independent public accounting firm will express an opinion on the City's Financial Statements.
- 8.04 The comprehensive annual financial report will be issued by November 30 of each year for the preceding fiscal year to the Commonwealth of Virginia Auditor of Public Accounts and to the City Council by December 5 or as required by the Code of Virginia.
- 8.05 The City will prepare its comprehensive annual financial report in compliance with the principles and guidelines established by the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program.
- 8.06 Full disclosure will be provided in the City's annual financial and budget reports and bond documents.
- 8.07 The City will provide annual disclosure to the rating agencies and national bond disclosure libraries regarding City audited financial matter.

Policy IX
Risk Management

- 9.01 The City shall make diligent efforts to avoid or prevent loss of City assets and to reduce the City's exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.
- 9.02 City shall transfer where cost effective by purchasing insurance and requiring others (contractors, etc.) to carry insurance.
- 9.03 The City shall manage risk exposure and purchase traditional insurance in the following areas: general liability, automobile liability, public officials' errors and omissions, police professional liability, property loss and worker's compensation.

Policy X
Expenditure Control

- 10.01 Expenditures will be controlled by an annual budget at the departmental level. The City Council may amend appropriations as necessary.
- 10.02 All purchases shall be made in accordance with the City's purchasing policies and procedures and applicable state and federal laws. The City shall endeavor to obtain supplies, equipment and services as economically as possible.

10.03 The City will maintain a purchasing system which provides needed materials in a timely manner to avoid interruptions in the delivery of services.

10.04 The City shall pay all invoices within thirty (30) days of receipt in accordance with the prompt payment requirements of the Code of Virginia.

Policy XI

Economic Development and Tourism

11.01 While constantly striving to enhance its appeal as a heritage tourism destination, the City shall continue to expand and diversify its economic base by attracting industrial and commercial enterprises to the City. Special emphasis should be given to industrial and commercial enterprises that will employ the local labor force. Such businesses and industries will be in accordance with the plans and ordinances of the City.

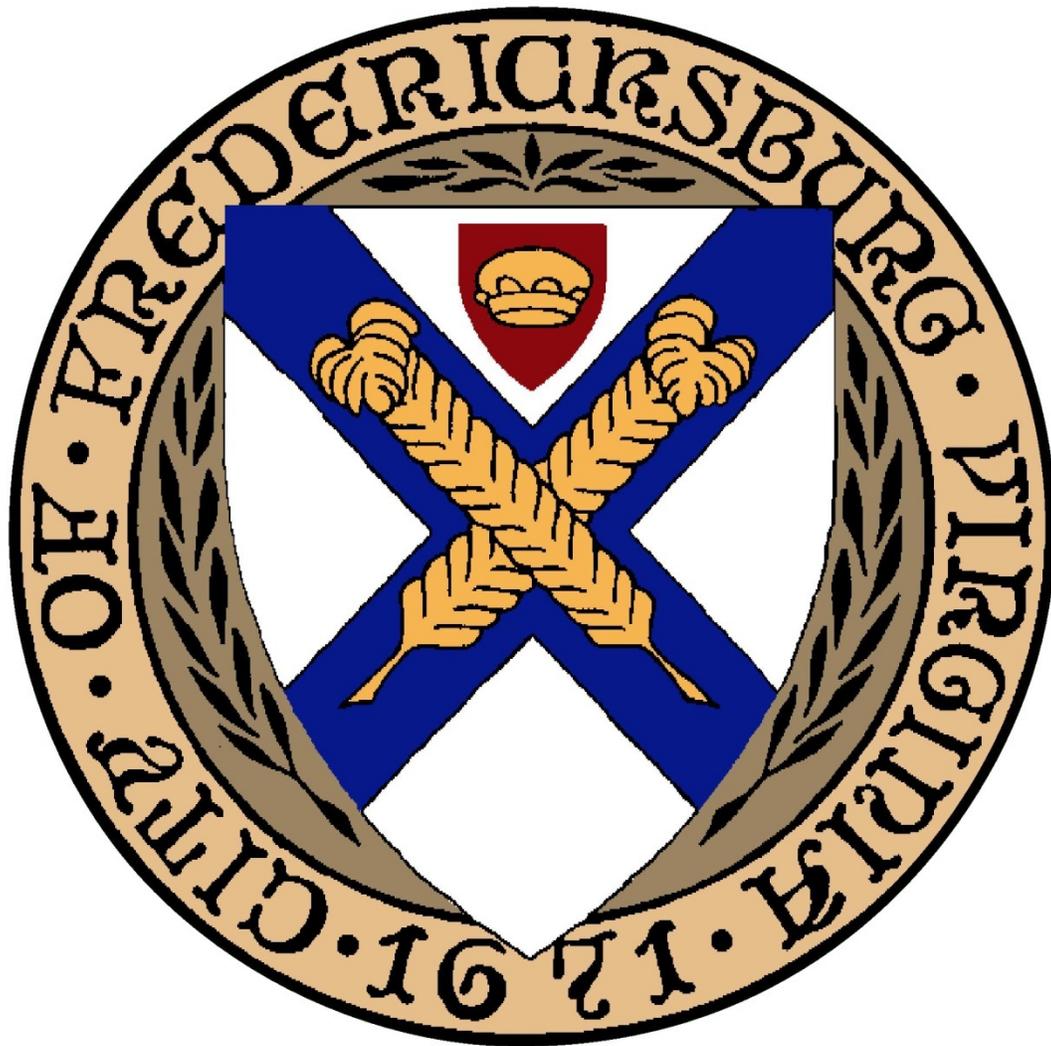
11.02 The City will endeavor to develop a network of public facilities which link planned industrial and commercial areas with its growing residential areas.

Policy XII

Policy Review

12.01 The City Council will review and affirm by resolution the financial policies contained in this document a minimum of once every two years after review with its staff.

12.02 The City Manager shall provide the City Council a written status report concerning the City of Fredericksburg's compliance with the twelve financial policy categories on an annual basis concurrent with the delivery of the comprehensive annual financial report.



Adopted Operating and Capital Budget FY 2009

Glossary

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ADOPTED OPERATING AND CAPITAL BUDGET FY 2009
GLOSSARY

Annual Capital Budget – The City adopts an annual capital budget that covers the City’s capital project funds, including Public Education (Fund 301); Public Works (Fund 302); Water (Fund 303); Wastewater (Fund 304); Public Facilities (Fund 305); Public Safety (Fund 306); and Transit (Fund 309). The Annual Capital Budget also constitutes the first year of the City’s Capital Improvements Plan.

Annual Operating Budget – The City adopts an annual operating budget that covers all of the City’s operating funds.

Appropriation – The legal authority to spend money or enter into obligations to spend money under state law.

Balanced Budget – The City adopts a balanced budget in which current expenditures for all funds are matched by current revenues or appropriated fund balances.

Basis of Accounting – The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The measurement focus for governmental funds is current financial resources, whereby only current assets and current liabilities are generally included on the balance sheet. The enterprise funds are accounted for on a flow of economic resources measurement focus, whereby all assets and all liabilities are included on the statement of net assets. The different methods of accounting flow from these considerations.

Modified Accrual – for Governmental Funds, the revenues are recognized in the period in which they become measurable and available. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

Full Accrual – for Enterprise Funds, the revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to the receipt or disbursement of cash.

Capital Fund –The City procures major capital assets through capital funds. The capital funds are budgeted through the capital budget process. These funds include Public Education, Public Works, Public Facilities, Public Safety, Water, Sewer, and Transit. The City also created special capital funds to construct the new school buildings.

Capital Improvements Plan – The Capital Improvements Plan is a five-year listing of major capital projects by capital fund. The CIP does not appropriate funds, and may be re-evaluated and amended as conditions warrant.

Capital Outlay – Capital outlay represents spending on assets that generally last longer than one year and is over \$1,000 in value (exception: computer software). These are purchased through the capital outlay line items in the budget. Major capital assets, which are generally greater than \$75,000 and last longer than three years, will generally be budgeted through the capital budget process.

Central Rappahannock Regional Library – The Central Rappahannock Regional Library is a regional library set up under an agreement in accordance with state law to serve the City of Fredericksburg, Stafford County, and Spotsylvania County. The CRRL also contractually serves Westmoreland County.

City Council – The City Council of the City of Fredericksburg is the legislative body that sets City laws and policies and oversees City operations. The City Council has seven members, including the Mayor, and are elected to staggered four-year terms. Regular meetings are held the second and fourth Tuesday of every month at 7:30 p.m. in City Hall, 715 Princess Anne Street.

City Manager – The City Manager is the chief executive officer of the City of Fredericksburg, and is appointed and serves at the pleasure of the City Council. The City Manager is responsible for developing the annual budget, and in overseeing the operations of the City.

Compensation Board – The Compensation Board of the Commonwealth of Virginia sets the state's compensation levels to local governments for Constitutional Officers, and also provides technical and other assistance to these officials in the performance of their duties. The City receives state assistance for the following offices from the Compensation Board: Commonwealth's Attorney, Clerk of the Circuit Court, Sheriff, Treasurer, and Commissioner of the Revenue.

Constitutional Officers – The Constitution of Virginia provides that cities and counties have certain offices that are elected by the citizens and serve terms of office. These officers are independent of the City Council; but their budgets are adopted and appropriated by the City Council. In the City, these offices include the Sheriff, the Clerk of the Circuit Court, the Commonwealth's Attorney, the Treasurer, the Commissioner of the Revenue, and the Voter Registrar.

Contingency – Contingency accounts are set aside in certain funds to meet unforeseen circumstances; in order to utilize contingency funds, the City Council must adopt a supplemental appropriation resolution.

Debt Service Funds – Debt service funds are set aside to pay the principal and interest on debt owed by the City. Balances are not kept in the debt service accounts of the City; rather, funds are transferred in year-to-year from other funds based on the debt retirement schedules of the City.

Depreciation – Expiration in the service life of capital assets attributable to deterioration, inadequacy, and obsolescence. Depreciation of capital assets is charged in the City’s enterprise funds. The depreciation charges are set based upon a schedule that varies depending upon the type of asset (e.g. buildings last longer than vehicles).

Encumbrance – an obligation against City funds in the form of a purchase order or contract for goods that have not yet been delivered or services that have not yet been performed.

Enterprise Fund – Enterprise funds consist of City-owned utilities that are accounted for on an accrual basis similarly to most large business accounting. Unlike other governmental funds, depreciation is charged to capital assets in enterprise funds. The City currently has four major enterprise funds: Water, Sewer, Transit, and Parking.

Fiduciary (Fiscal Agent) Funds – These funds are funds that the City uses to account for resources that are held in trust for other government agencies or programs. This is done primarily as a way to lower administrative overhead costs and ease operations for these agencies or programs. The City includes these funds in their budget resolution, and in the City’s annual audit.

Fiscal Year – The City designates a twelve-month period for accounting and budgeting purposes. The City’s Fiscal Year is July 1 – June 30. The second half of the fiscal year is named when abbreviated. For example, Fiscal Year 2008 (or FY 2008) encompasses the period July 1, 2007 to June 30, 2008.

Fund – A fund is a balanced set of accounts. Government accounting information is organized into separate funds, each containing its own revenues, expenditures, and fund balances. Moving money from one fund to another requires a transfer.

Fund Balance – Fund balance is the balance remaining in a fund after all liabilities are subtracted from all assets for that fund. Positive fund balances may be designated for future use, left undesignated, or appropriated for subsequent expenditures. The City of Fredericksburg has a policy goal that the General Fund Undesignated Unreserved Fund Balance will not fall below 12% of the prior year’s total General Fund revenues.

General Fund – The General Fund (Fund 100) is the main operations fund for the City, and accounts for all operations not accounted for in other funds. Most City operations, with the exception of Enterprise Funds) are accounted for in the General Fund. Funds are transferred from the General Fund to support other operational funds, including Public Schools, Social Services, and the Comprehensive Services Act Fund.

Governmental Fund – The General Fund and most other funds for the City are called governmental funds and are accounted for on a modified accrual basis. This accounting method recognizes revenues in the period in which they become measurable and available. The focus is on the measurement of currently available financial resources. The major difference between governmental funds and enterprise funds is that capital assets are recognized as expenditures in the year in which the purchase is made rather than being accounted for as an asset and depreciated over time.

Line Item – Line items group expenditures by object purchased – for example, Professional Services – Engineering or Office Supplies.

Local Composite Index – the Local Composite Index is the Commonwealth of Virginia’s funding formula for state aid to local school districts. The formula measures the wealth of a community against the total population and school enrollment. Higher scores indicate that a community needs less school assistance; while lower scores indicate that a community needs more school assistance. The City of Fredericksburg’s Local Composite Index score is high relative to other localities; and the City receives less state aid on a per pupil basis as a result.

Parking Fund – The Parking Fund is an enterprise fund that has been created to account for the capital contributions and the operations of the Sophia Street Parking Garage, which opened in November 2005 in downtown Fredericksburg.

PRTC – the Potomac and Rappahannock Transportation Commission. The City and several other jurisdictions are members of the PRTC, and as a result are able to charge a motor fuels tax of 2% of receipts. The motor fuels tax is dedicated first to the needs of the Virginia Railway Express and the PRTC administration; the City may then use surplus amounts to meet transportation needs in the community.

Program Change Proposal – An internal City term for a major budget proposal more than \$10,000 in value that alters or could potentially alter service levels. These are reviewed by an internal committee of senior-level managers for recommendations on inclusion in the City Manager’s Recommended Budget. Examples of a Program Change Proposals include new positions or new equipment. Replacing existing capital equipment, on the other hand, would not be considered through the Program Change Proposal process because it does not alter existing service levels.

Rappahannock Juvenile Detention Center – The regional jail facility that houses juvenile inmates awaiting trial, in transition between facilities, or serving short sentences and not sent to state prison. The regional facility serves the City of Fredericksburg and the Counties of Stafford, Spotsylvania, and King George.

Rappahannock Regional Jail – The regional jail facility that houses adult inmates either awaiting trial, in transition between facilities, or serving short sentences and not sent to state prison. The regional facility serves the City of Fredericksburg and the Counties of Stafford, Spotsylvania, and King George.

Resolution – an official act of the City Council; the City adopts and amends its budget via resolution. Resolutions appropriating funds, such as budget resolutions, require two readings (or approvals) before taking effect.

Special Revenue Fund – Special revenue funds are used to account for special revenues requiring separate accounting because of legal or regulatory provisions or administrative action. Examples include grant funds and special tax district revenues.

Transfer – Transfers move money between funds, between projects, or between line items. The City Manager has authority to move funds between line item objects. The City Council transfers funds through an appropriation resolution between funds or between capital projects.

Transit Fund – The City Transit Fund supports the operations of the FREDericksburg Regional Transit System. The fund is largely supported by federal and state grant funds as well as contributions from local communities.

VRE – VRE stands for the Virginia Railway Express, which is a commuter rail service that serves the Washington, D.C. area. There are two service lines: one originates in downtown Fredericksburg and ends in Washington, while the other runs from Manassas to Washington.

VRS – VRS stands for the Virginia Retirement System, which is the statewide pension plan for state employees and local employees for localities that have joined the system. Both the City of Fredericksburg and the Fredericksburg City Schools are members of the VRS. The VRS sets retirement contributions as a percentage of salary every two years based upon an assessment of the City's retirement benefit liabilities and accrued system assets. For the Fredericksburg City Schools, these contribution rates are subject to General Assembly approval, as the state partially funds retirement benefits for school employees.

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