

Financial Policies

The financial integrity of our City government is of utmost importance. To discuss, write, and adopt a set of financial policies is a key element to maintaining this integrity. These financial management policies are designed to ensure the fiscal stability of the City of South Bend and to guide the development and administration of the annual operating and capital budgets, as well as the debt program.

Written, adopted financial policies have many benefits, such as assisting the Mayor, Common Council and City Controller in the financial management of the City, saving time and energy when discussing financial matters, promoting public confidence, and providing continuity over time as the Mayor and Common Council and staff members change. While these policies will be amended periodically, they will provide the foundation and framework for many of the issues and decisions facing the City. They will promote wise and prudent financial management, provide the foundation for adequate funding of services desired by the public, and help make the City more financially stable, efficient and effective.

Objectives

1. Assist the Mayor, Common Council and City management by providing accurate and timely information on financial conditions pertinent to City operations.
2. Provide sound financial principles with which to guide the important decisions of the Mayor and Common Council and management, which have significant fiscal impact.
3. Set forth operational principles that minimize the cost of government and financial risk, to the extent consistent with services desired by the public.
4. Enhance the policy-making ability of the Mayor and Common Council by providing accurate information on program costs.
5. Ensure the legal use of all City funds through a sound financial system and strong internal controls.
6. Employ revenue policies that diversify revenue sources, distribute the costs of municipal services fairly, and provide adequate funds to operate desired programs.

In order to meet these objectives, the City's policies are divided into seven general categories for ease of reference. These categories include: 1) Operating and Budgeting Policies, 2) Capital Improvements Program (CIP), 3) Revenue and Expenditure Policies, 4) Reserve Policies, 5) Debt Management and Administration Policies, 6) Cash Management/Investment Policies, and 7) Accounting, Auditing, and Financial Reporting Policies. It is recommended that all policies included in this document be adhered to.

Operating and Budgeting Policies

The City of South Bend will maintain a system of defined operating and budgeting practices, in compliance with Indiana statute, the Department of Local Government Finance (DLGF), and the Indiana State Board of Accounts (SBOA) to ensure adequate protection of city assets and resources, and to protect same in consideration of the taxpayers of the City of South Bend.

Operating

1. The city will maintain compliance with all Federal, State, and local legal requirements.
2. The city will continuously pursue an active campaign to maintain existing and create new sources of revenue.
3. The city will continue to provide first priority funding to essential services as determined by the Mayor in conjunction with the Common Council.
4. The city will pursue an active campaign to create and maintain state of the art operating practices within infrastructure operations.
5. The city will maintain an ongoing program of capital asset replacement and modernization in order to maintain efficient city operations.
6. The city will maintain a structured revenue and expenditure forecasting process to enable effective financial planning on a current and multi-year basis.
7. A financial audit will be performed annually by the Indiana State Board of Accounts. Audit results will be presented to the Mayor, the Common Council President, and City Controller upon completion of the audit. The city will evaluate any audit recommendations, and determine and implement remedial actions, as required.
8. The city will establish financial, purchasing, human resource and information technology policy statements and procedures, as required, to define standard operating practices and protocols, intended to protect city assets.

Budgeting

At least one month before the preparation of the proposed annual budget, the City Controller will meet with the Mayor to review and deliberate all policy guidelines that may affect the proposed budget.

1. The budget is prepared using the cash basis of accounting.
2. The budget is approved in the form of an appropriations ordinance after the Mayor and Common Council have conducted at least one advertised public hearing.
3. The operating budget and CIP together shall serve as the annual financial plan for the City. They will serve as the policy documents for the Mayor and Common Council for implementing their visions, goals, and objectives. The budget shall

provide staff with the resources necessary to accomplish the Mayor and Common Council's determined service levels.

4. The City Controller shall annually prepare and present a proposed operating budget to the Mayor and Common Council at least four months before the beginning of each fiscal year. The Common Council will adopt said budget no later than November 1 of each year. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the Common Council and the Mayor.
5. The City defines a balanced budget as a budget that has revenues plus cash reserves equal to expenditures. It is the City's policy to fund current year expenditures with current year revenues, whenever possible, without using cash reserves.
6. Each department and division prepares its own budget for review by the Mayor and City Controller. Budget accountability rests primarily with each department. The basic format of the budget shall identify programs within organizational structures. Programs are defined as specific services provided to the public, other departments, or other organizations.
7. The Budget is adopted at the department and cost category level. During the year, it is the responsibility of the Mayor, Department Heads, Fiscal Officers and the City Controller to administer the budget.
8. A five-year projection of revenues and expenditures for all funds is prepared each fiscal year to provide strategic perspective to each annual budget process.
9. All appropriations shall lapse at the end of the budget year if not expended or encumbered.
10. Any year-end operating surpluses will revert to fund balances for use in maintaining reserve levels set by policy (see policy on reserves) and the balance will be available for pay-go capital projects and/or one time capital outlays.
11. The city will maintain an internal control system to ensure spending within approved budgetary expenditures.

Fund Structure

1. The accounts of the City are organized into funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures (or expenses, as appropriate).
2. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be expended and the means by which spending activities are controlled. The City uses governmental funds and proprietary funds. Governmental funds are those through which most governmental functions of the City are financed. The acquisition, uses and balance of the City's expendable financial resources and the related liabilities (except for those accounted for in the enterprise funds) are accounted for through governmental funds.

3. The City's governmental funds are the General Fund, the Special Revenue Funds, the Capital Projects Fund, the Debt Service Funds and Redevelopment Commission Funds.
 - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
 - The Special Revenue Funds are used to account for the proceeds of a specific revenue source (other than major capital projects) that are restricted by legal and regulatory provisions or budgeting contributions for outside sources to finance specific activities. The major Special Revenue Funds include: County Option Income Tax (COIT), County Economic Development Income Tax (CEDIT), Parks & Recreation, Local Road & Streets, Motor Vehicle Highway, and the Rainy Day Fund.
 - The Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities and general capital construction, including: streets, parks, and public buildings (other than those financed by enterprise funds).
 - The Debt Service Funds, which include special assessments, are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.
4. The enterprise funds are the Water Works, Wastewater/Sewage, Emergency Medical Services (EMS), Consolidated Building Department, Parking Garages, and Century Center Funds.
5. The Internal Service Funds are Central Services, Liability Insurance, Take Home Police Vehicle, Self-Funded Employee Benefits, Unemployment Compensation, Parental Leave and Innovation & Technology/311 Call Center Funds.
6. The Trust & Agency Funds are primarily Firefighter and Police Pension Funds and the Morris/Palais Box Office Funds.
7. The Redevelopment Commission Funds are generally for TIF capital projects or for debt service.
8. Creation of new funds should be based on the following criteria:
 - i) The revenue source is ongoing; i.e., more than one fiscal year.
 - ii) The amounts to be recorded are material.
 - iii) Interest income is required to be allocated.
 - iv) The amounts are specifically designated.
 - v) There is not another fund that can be used to account for the revenue source.
 - vi) There are special circumstances that have led management to create the separate fund.
 - vii) If the State or Federal government requires a separate fund to account for a particular source of revenue than such a fund can and must be created.
 - viii) It is a requirement of GAAP to establish the fund.

Capital Improvement Program (CIP) Policies

Assets will be capitalized where: (1) ownership title is held by the City of South Bend, (2) the acquisition cost of the item exceeds the capitalization threshold identified in the following table, and (3) the item has a useful life in excess of one year.

<u>Asset Category</u>	<u>Capitalization Threshold</u>
Land	All land is capitalized
Construction in Progress	All construction in progress is capitalized
Infrastructure	\$250,000
Buildings	\$100,000
Land & Building Improvements	\$100,000
Intangibles	\$100,000
Machinery & Equipment	\$ 10,000
Computer & Office Equipment	\$ 10,000
Vehicles	\$ 10,000

The City prepares a five-year capital improvement plan, which is reviewed by the Mayor and approved by the Common Council during the budgeting process.

The City will maintain its physical assets at a level adequate to protect the City's capital investment and to reduce future maintenance and replacement costs. The budget will provide for the adequate maintenance and the orderly replacement of the capital plant and equipment from current revenues where possible.

Revenue Policies

The City of South Bend will pursue measures to encourage economic development, intended to expand the tax base through real and personal property tax, employment income tax, and other tax and economic impact created by economic expansion.

1. The city will pursue development and maintenance of a diversified economic environment portfolio of commercial, industrial and residential taxpayers, intended to produce a stable revenue stream.
2. The city will pursue efforts as required with St. Joseph County to maintain sound property appraisal procedures and practices in order to ensure a system of current and up-to-date property assessments.

3. The city will maintain the practice of establishing pricing for user charges and fees at market based levels.
4. The city will maintain the practice of establishing pricing for the Water and Wastewater Utility operations at levels supporting utility operational costs and in full compliance with State of Indiana Utility Regulatory requirements.
5. The city will maintain the practice of aggressive collection pursuit of all revenue due to the City of South Bend and will utilize the City's in-house legal department and outside collection agencies in this effort.
6. The city will maintain the practice to seek funding support from Federal, State of Indiana, and other entities for use by City operations, through higher level governmental grants, and other sources as may come available from time to time.

Expenditure/Expense Policies

The City will review actual expenditures/expenses to budget on a monthly basis and amend the budget quarterly with the Common Council to bring budgets in balance with actual/year-end projected expenditures/expenses.

1. The City will strive to reduce major cost factors through operational efficiencies and competitive bidding.
2. The City will maintain a budgetary control monitoring system to ensure adherence to the budget.
3. The City will publish a budget to actual financial report on a monthly basis.

Reserve Policies

The City utilizes a variety of funds for recording the revenue and expenditures/expenses of the City. At each fiscal year end, operating surpluses that revert to cash balance over time constitute available reserve of the City.

General Fund:

Minimum Cash Reserve – The City will maintain General Fund cash reserves at a level not less than 30 percent of the annual adopted General Fund expenditures. The purpose of these reserves is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to residents. This is the minimum level necessary to maintain the City's creditworthiness and maintain adequate cash flows.

Unused Cash Reserves – To the extent that the General Fund cash exceeds the target, the City may draw upon the cash reserves to provide pay-go financing for capital projects, for other one-time capital items, or for other approved liability payments.

Rainy Day Fund – A “rainy day” account equal to a minimum of three percent of the City’s total expenditures in the prior year will be maintained annually in separate funds. This account will be made available for unanticipated, unbudgeted expenditures of a non-recurring nature and/or unexpected cost increases that require the approval by the Common Council and the Mayor.

Enterprise Funds:

Cash Reserves – The City will maintain cash reserves equal to 20% of annual expenditures for most Enterprise Funds, with the exception of the Water and Wastewater Utilities. The Water and Wastewater Utility Funds require a reserve of 5% of annual operating expenditures.

O&M Funds – The Water and Wastewater Funds will maintain Operations and Maintenance Funds at a level of 16.67% of annual operating expenses in the main operating funds, net of transfers.

Other Funds:

Minimum Cash Reserve – The City will maintain a cash balance in the other funds equal to 20%-50% of annual budgeted expenditures, depending on the specific needs of the fund. Debt Reserve Funds are set up for most debt service obligations and are funded at 100%.

Reserve Deficiencies:

If reserves in any City fund fall below the prescribed minimums, the City will implement the following budgetary strategies to replenish funding deficiencies:

- Seek reductions in recurring expenditures
- Seek to increase current revenue streams or develop new revenue sources
- Seek the use of ongoing grant funding to alleviate operating expenditures

Debt Policy

1. Debt management will provide for the protection and maintenance of the City’s AA bond rating, the maintenance of adequate debt service reserves, compliance with debt covenant provisions, and appropriate disclosure to investors, underwriters, and rating agencies.
2. The City’s compliance officer is the City Controller. Compliance monitoring will be performed annually.

3. The term of any City debt issue, including lease-purchases, shall not exceed the useful life of the assets being acquired by the debt issue.
4. All debt issuance shall comply with Federal, State and City requirements. All IRS regulations in regards to post-issuance tax compliance will be followed.
5. The City shall maintain an ongoing performance monitoring system of the various outstanding bond indebtedness. This is particularly important as funds borrowed for a project today are not available to fund other projects tomorrow and funds committed for debt service payments today are not available to fund operations in the future.
6. The City shall maintain all spending records related to bond issuance until at least three years after the final maturity is redeemed.
7. The City will maintain good, ongoing 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 (Official Statement).
8. Accompanying each debt issue will be an assessment of the City's capacity to repay the debt. The assessment will address the effects on the current operating budget, as well as identify the resources that will be utilized to repay the debt.
9. Long-term borrowing will not be used to finance current operations or normal maintenance and will only be considered for significant capital and infrastructure improvements.
10. The City will try to keep the average maturity of general obligation bonds at or below twenty years.
11. The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.
12. The City will not issue tax or revenue anticipation notes.
13. The City will strive to maintain a reliance on pay-go financing for its capital improvements, whenever possible.
14. The City will follow the general debt limits as stated by Indiana law, which mandates a 2% debt limit on net assessed valuation for certain type of general obligation and other debt.
15. The City will report all debt to the Indiana Department of Local Government Finance (DLGF) using their Gateway Reporting Program.

Refinancing

Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancing will be considered (within Federal tax law constraints) under the following conditions:

1. There is a net economic benefit.
 - a. In general, refinancing for economic savings will be undertaken whenever net present value savings of at least three (3%) percent of the refunded debt can be achieved.
 - b. Refinancing that produces net present value savings of less than three (3%) percent will be considered on a case-by-case basis.
2. It is needed to modernize covenants that are adversely affecting the City's financial position or operations.
3. The City wants to reduce the principal outstanding in order to achieve future debt service savings and it has available working capital to do so from other sources.

Investment and Cash Management Policies

1. It is the policy of the City of South Bend to make all investments, in both Deposit and Investment Accounts, in accordance with the terms and limitations of IC 5-13-9, Deposit and Investment Powers, as amended from time to time.
2. Surplus monies of the City on deposit with financial institutions, as determined by the City, shall be invested with maturities scheduled to coincide with projected cash flow needs, taking into consideration large routine expenditures (payroll, accounts payable, bond payments) and sizable blocks of anticipated revenue (property taxes, state shared revenue).
3. The Investment Policy was revised on January 1, 2017 and is reviewed annually by the Finance Department and the Common Council during the annual investment meeting which is held after the 1st Monday in January and before January 31st.
4. The City has entered into a custodial investment agreement with its primary financial institution to invest City funds.

Accounting, Auditing and Financial Reporting Policies

1. The accounting policies of the City of South Bend conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis". Each fund is a distinct, self-balancing accounting entity.

2. Governmental funds utilize the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.
3. Property taxes are recognized as revenue in the year for which they are collected. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
4. The State Board of Accounts requires an annual audit of all accounts of the City by the State Board of Accounts or by certified public accountants selected by the City and approved by the State Board of Accounts. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of South Bend are free of material misstatements. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.
5. The approval for allowance and write off of transactions related to uncollectible accounts is delegated to the City Controller and the Board of Public Works.
6. The City places continued emphasis on maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable, but not absolute, assurances regarding both the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and reports, such as the budget and the *Comprehensive Annual Financial Report (CAFR)* as well as the maintenance of accountability of assets.
7. The City of South Bend issues a CAFR within six months of the close of the previous fiscal year. It will be distributed to the Mayor and Common Council within seven months of the fiscal year. The CAFR will be submitted annually to The Government Finance Officers Association (GFOA) for peer review as part of the *Certificate of Achievement for Excellence in Financial Reporting* program. All reports prepared by the auditors and management's response to those reports will be presented to the Mayor, Common Council President, and City Controller at the audit exit conference.
8. The City offers its employees a defined benefit pension plan through the State of Indiana Public Retirement System (INPRS). The retirement plan issues separate financial statements through the State run program.