City of Rio Rancho

Financial Policies

The financial policies set forth below are the basic framework for the financial management of the City of Rio Rancho. These policies are intended to assist members of the City of Rio Rancho Governing Body and City staff in evaluating current activities and proposals for future programs. These policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

Annual Budget Policies

Budget Form

The City Manager, prior to the end of April each year, shall submit to the Governing Body the annual budget covering the next fiscal year. The budget including the General Fund, Special Revenue Funds, and Enterprise Funds shall contain the following information:

- 1. A letter from the City Manager discussing the proposed financial plan for the next fiscal year;
- 2. budget summaries for the General Fund, Special Revenue Funds and Enterprise Funds, shall include a beginning fund balance, estimated revenues, operating expenditures, capital outlay and ending fund balance;
- 3. proposed capital projects and equipment, debt service expenditures, along with comparisons of estimated expenditures to three prior year actual expenditures;
- 4. proposed revenues, by source, for the budget year, with comparisons to three prior year actual revenues; and
- 5. a table of proposed activity changes (additional staffing) including operating and capital expenditures required supporting the additional staffing.

Basis of Budgeting

The budget basis of accounting differs from generally accepted accounting principals (GAAP) used for preparing the City's annual financial reports. The major difference is that revenue and expenditures are budgeted on a cash basis with encumbrances (contractual commitments to be performed) considered the equivalent of expenditures rather than GAAP required reservation of fund balance.

Budget Calendar and Roles and Responsibility

The City's budget is developed on an annual basis. The City's fiscal year begins on July 1st and ends on the following June 30th. Key milestones are as follows:

- 1. Budget packages for annual preparation, which include forms and instructions, shall be distributed to City departments no later than December 1st.
- 2. Departments must return their proposals no later than February 15th.

- 3. The City Manager and representatives of the Financial Services Department review the department budget proposals, making any additions or deletions that are determined appropriate.
- 4. The City Manager's recommended budget shall be submitted to the Mayor no later than April 15th. The Mayor reviews the budget and provides written comments to the City Manager within ten days. The City Manager may or may not incorporate the comments into the recommended budget. The City Manager must give a written explanation to the Governing Body why any comment or recommendation was not included in the recommended budget.
- 5. The recommended budget must be submitted to the Governing Body no later than the first regularly scheduled meeting in May.
- 6. Following submission of the budget to the Governing Body, multiple budget hearings are scheduled. Two public hearings for citizen comments are held during the month of May. Following adoption by resolution, the budget is submitted by June 1st to the New Mexico Department of Finance and Administration to obtain interim approval.
- 7. At fiscal year-end cash positions are established. After which the Governing Body makes a final review and approves the final budget by resolution.

Budget Control System

The Financial Services Director is responsible for maintaining a budgetary control system to ensure adherence to the adopted budget. On a quarterly basis, the Financial Services Director will prepare summary reports that compare actual revenues and expenditures to budgeted amounts. These reports are presented to the Governing Body to keep them informed of the City's operating performance. Monthly budget reports are distributed to and reviewed by the City Manager and Department Directors.

One aspect of budget control is the process for approving amendments to the operating budget or budget transfers. These changes to the budget are handled as follows:

- 1. An increase in appropriations require approval by resolution of the Governing Body.
- 2. Any single budget transfer that exceeds \$20,000 requires approval by resolution of the Governing Body.
- 3. The City Manager has authority to approve budget transfers within a cost center not exceeding \$20,000 in the aggregate within a fiscal year.

Balance Budget Definition

All funds are required to balance. As such, total anticipated revenues must equal the sum of budgeted expenditures for each fund. Revenues are derived from four sources: current revenue charges; increases in existing revenue charges; new revenue sources; and unallocated reserves carried forward from prior years.

Performance Measures

Where possible, the City will integrate performance measurement and productivity indicators in the City's published budget document.

Revenue Policies

Revenue Diversification and Stabilization

The City will strive to attain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source. However, State of New Mexico statutes force municipalities to rely heavily on gross receipts tax (GRT) as their primary revenue. GRT revenue accounts for nearly 70 percent of most New Mexico municipalities' general fund revenue. Because it is highly influenced by local economic conditions, this revenue tends to be much more volatile than property tax. Property tax accounts for only a small percentage of the City's general fund revenue.

To address this inherent volatility, the City will pursue strategies to promote economic development and diversification to strengthen its overall economic base. To this end, the Governing Body adopted a Comprehensive Economic Development Policy.

One-Time Revenues and Unpredictable Revenues

The City will use one-time or unpredictable revenues for capital expenditures or for expenditures required by the revenue, and not subsidize recurring personnel, operational or maintenance costs.

New Revenues

For any proposed additional revenue source the following criteria will be considered:

- 1. Community acceptability.
- 2. Competitiveness the revenue or tax burden of the City relative to neighboring communities.
- 3. Diversity the balance of revenue sources that can withstand changes in the business cycle.
- 4. Efficiency the cost of administering a tax or fee should bear a reasonable relation to revenues collected, and any new tax or fee should have minimal effect on private economic decisions.
- 5. Fairness the distribution of the City's revenue burden as measured by ability to pay, the benefits received, or the community's definition of the resident's fair share of the revenue burden.

Revenue Estimates

In order to maintain a stable level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year and should avoid midyear service reductions.

User Fee Cost Recovery Goals

Ongoing Review

Fess will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index. Fees may be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery.

User Fee Cost Recovery Levels

In setting user fees and cost recovery levels, the following factors will be considered:

1. Community-Wide Versus Special Benefit.

The level of user fee cost recovery should consider the *community-wide* versus *special service* nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.

2. Service Recipient Versus Service Driver.

After considering community-wide versus special benefit of the service, the concept of *service recipient* versus *service driver* should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery from the applicant is appropriate.

- 3. Effect of Pricing on the Demand for Services.
 - The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly stimulated by artificially low prices. Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.
- 4. Feasibility of Collection and Recovery.

Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing

user fees, especially if significant program costs are intended to be financed from that source.

Factors Favoring Low Cost Recovery Levels

Very low cost recovery levels are appropriate under the following circumstances:

- 1. There is *no* intended relationship between the amount paid and the benefit received. Almost all "social service" programs fall into this category as it is *expected* that one group will subsidize another.
- 2. Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
- 3. There is *no* intent to limit the use of (or entitlement to) the service. Again, most "social service" programs fit into this category as well as many public safety (police and fire) emergency response services. Historically, access to neighborhood and community parks would also fit into this category.
- 4. The service is non-recurring, generally delivered on a "peak demand" or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services also fall into this category.
- 5. Collecting fees would discourage compliance with regulatory requirements adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might fall into this category.

Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

- 1. The service is similar to services provided through the private sector.
- 2. Other private or public sector alternatives could or do exist for the delivery of the service.
- 3. For equity or demand management purposes, it is intended that there be direct relationship between the amount paid and the level and cost of the service received.
- 4. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
- 5. The service is regulatory in nature and voluntary compliance is not expected

to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks and subdivision review fees for large project would fall into this category.

General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges.

- 1. Revenues should not exceed the reasonable cost of providing the service.
- Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organizationwide support costs such as accounting, personnel, data processing, vehicle maintenance and insurance.
- 3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- 4. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
- 5. A unified approach should be used in determining cost recovery levels for Various programs based on the factors discussed above.

Low Cost-Recovery Services

Based on the criteria discussed above, the following types of service should have very low cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for operation as a whole should be general-purpose revenues, not user fees.

- 1. Delivering public safety emergency response services such as police patrol services and fire suppression.
- 2. Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.
- 3. Providing social service programs and economic development activities.

Recreation Programs

The following cost recovery policies apply to the City's recreation programs:

- 1. Cost recovery for activities directed to adults should be relatively high.
- 2. Cost recovery for activities directed to youth and seniors should be relatively

low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher. Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high-levels of participation in youth and senior recreation activities regardless of financial status.

3. Cost recovery goals for recreation activities are set as follows:

High-Range Cost Recovery Activities (60% to 100%)

- a. Classes (Adult and Youth)
- b. Adult athletics (volleyball, basketball softball, swimming)
- c. Facility rentals

Mid-Range Cost Recovery Activities (30% to 60%)

- d. Library room rentals
- e. Special events and other City sponsored events
- f. Youth baseball
- g. Youth basketball
- h. Swim lessons
- i. Outdoor facility and equipment rentals

Low-Range Cost Recovery Activities (0% to 30%)

- j. Public swim
- k. Special swim classes
- 1. Youth programs
- m. Teen programs
- n. Senior programs
- 4. For cost recovery activities of less than 100%, there should be a differential rates between residents and non-residents. However, the Director of Parks, Recreation and Community Services is authorized to reduce or eliminate non-resident fee differentials when it can be demonstrated that:
 - a. The fee is reducing attendance.
 - b. And there are no appreciable expenditure savings from reduced attendance.
- 5. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special-use areas, and recreation equipment for activities not sponsored or cosponsored by the City. Such charges will generally conform to the fee guidelines described above. However, the Director of Parks, Recreation and Community Services is authorized to charge fees that are closer to full cost

- recovery for facilities that are heavily used at peak times and include a majority of non-resident users.
- 6. A vendor charge of at least 10 percent of gross income will be assessed from Individuals or organizations using City facilities for moneymaking activities.
- 7. Director of Parks, Recreation and Community Services is authorized to offer Reduced fees such as introductory rates, family discounts and coupon discounts on pilot basis (not to exceed 18 months) to promote new recreation programs or resurrect existing ones.
- 8. The Parks, Recreation and Community Services Department will consider waiving fees only when the City Manager determines in writing that an undue hardship exists.

Comparability With Other Communities

In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

- 1. Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for several reasons.
 - a. They reflect the "market" for these fees and can assist in assessing the reasonableness of Rio Rancho' fees.
 - b. If prudently analyzed, they can serve as a benchmark for how costeffectively Rio Rancho provides its services.
- 2. However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:
 - a. What level of cost recovery is their fee intended to achieve compared with our cost recovery objectives?
 - b. What costs have been considered in computing the fees?
 - c. When was the last time that their fees were comprehensively evaluated?
 - d. What level of service do they provide compared with our service or performance standards?
 - e. Is their rate structure significantly different than ours and what is it Intended to achieve?
- 3. These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of our fees to other communities should be one factor among many that is considered in setting City fees.

Expenditure Policy

The City will maintain a level of expenditures that will provide for the health, safety and welfare of the residents of the City of Rio Rancho.

Employee Efficiency

The City will invest in technology and other efficiency tools to maximize staff productivity.

Maintenance of Capital Assets

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance cost, and to continue service levels.

Fund Balance and Reserve Policy

The City of Rio Rancho General Fund's principal revenue source, gross receipts tax, accounts for nearly 60 percent of general fund revenues. Gross receipts tax revenue tends to be volatile since it is impacted heavily by economic conditions. An adequate General Fund balance level is paramount to the overall financial management strategy and key factor in external agencies' measurement of the City's financial strength.

The City will strife to maintain a total General Fund balance of approximately fifteen percent (15%) and not greater than twenty-five percent (25%) of General Fund operating expenditures.

The New Mexico Department of Finance and Administration, Local Government Division regulations mandates that all municipalities maintain a minimum general fund balance of 1/12 or 8.3 percent of general fund operating expenditures. To ensure that the City meets this requirement, this amount shall be set up as a reserve for contingencies as part of the total fund balance.

Capital Improvement Plan

The Capital Improvement Plan of the City is a long-term planning tool intended to allow for prioritization, financing coordination, and timely technical design and application of projects and programs to better serve the citizens of Rio Rancho.

- 1. The City's Capital Improvement Plan shall be a five-year plan and be updated annually.
- 2. The City shall maintain a balanced mix of financing for funding capital project, including pay-as-you-go, grants, and debt, without excessive reliance on any one source.
- 3. The City will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs

associated with new capital improvements will be projected and included in operating budget forecasts.

Debt Management Policy

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation, and reporting on all debt obligations issued by the City.

Use of Long-term Debt Financing

Long-term debt financing will not be considered appropriate for a recurring purpose such as current operating and maintenance expenditures. The City will use long-term debt financing only for one-time capital improvement projects and unusual equipment acquisitions included under the following circumstances:

- 1. when the project is included in the City's five-year capital improvement plan;
- 2. when the project is not included in the City's five-year capital improvement plan, but is an emerging need whose timing was not anticipated in the five-year capital improvement plan, or it is a project mandated immediately by state or federal requirements, or it is a project for which grant money has been offered and the matching funds are not readily available from other sources;
- 3. when the project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City.

Types of Debt

Debt financing may include general obligation bonds, revenue bonds, lease/purchase as well as public improvement district bonds, special assessment bonds, and tax increment financing (TIF) Bonds.

Project Life

Only capital assets or projects with an economic value lasting more than five years can be financed using debt.

Refunding Policy

The Financial Services Department and the financial advisor will monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the present value savings of a particular refunding should exceed 3%, with certain exceptions, such as bonds to be refunded have restrictive or outdated covenants, or restructuring debt is deemed to be desirable.

Limitations on Maturity

The City normally will issue bonds with maturities of 10 years for general obligation bonds and 12 years for revenue bonds. The City will seek to structure debt with level principal and interest costs over the life of the debt.

Statutory Limitation

The Constitution of the State of New Mexico limits the amount of outstanding general obligation bonds to 4% of the assessed value of taxable property within the City.

Credit Enhancements

Credit enhancement (letters of credit, bond insurance, etc.) may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancement.

Investment of Bond Proceeds

All general obligation and revenue bond proceeds shall be invested as part of the City's cash pool unless otherwise specified by the bond legislation. Investments will be consistent with those authorized by existing city ordinance, state law and by the City's investment policies.

Sale Process

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 financings or security structure.

Professional Services

The City employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors. The key players in the City's financing transactions include its financial advisor, bond counsel, the underwriter (on a negotiated sale) and in some instances a disclosure counsel. Other outside firms, such as those providing paying agent/registrar services, trustee, credit enhancement, auditing, or printing services, are retained as required.

Bond Rating Goals

The City will seek to maintain and, if possible, improve the current ratings in order to minimize borrowing costs and preserve access to credit.

Disclosure

The City is committed to continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure.

Rating Agency Relations

Full disclosure of operations and open lines of communication shall be made to the rating agencies. City staff, with the assistance of the financial advisor, shall prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from Moody's, Standard and Poor's, and Fitch as recommended by the City's financial advisor.

Investment Policy

The purpose of this policy is to set forth the requirements for the investment of public funds in a manner that maximizes safety of principal while ensuring that funds are available to meet the operating needs of the City and to meet unanticipated cash demands while earning the highest possible return within the parameters established by the Charter and Revised Ordinances of the City of Rio Rancho and the laws of New Mexico. The investment policy is set forth in Title III, Chapter 36 as the Municipal Investment Ordinance.

Scope

Unless otherwise noted, this policy applies to all financial assets over which the City has direct control as well as those funds that the City is responsible for as custodian or trustee.

Delegation of Authority

- 1. Authority to manage the investment program is granted to the treasurer. Any authority granted in State statute shall be secondary to lawfully enacted ordinances of the City. The treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.
- 2. The treasurer shall carry out established written procedures and internal controls for the operation of the investment program consistent with this ordinance. Procedures should include references to: safekeeping, delivery versus payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements, and banking services contracts.
- 3. No person may engage in an investment transaction except as provided under this ordinance and the procedures established by the treasurer.

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would 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.

In accordance with this prudent person standard, investment officers acting within the written procedures of the City's investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and sale of securities are carried out in accordance with the terms of this policy.

Authorized Financial Dealer and Institutions

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

1. Audited financial statements.

- 2. Proof of National Association of Securities Dealer certification,
- 3. Proof of state registration,
- 4. Completed broker/dealer questionnaire, and
- 5. Certification of having read the investment policy.

Internal Controls

The treasurer shall establish and maintain an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. Accordingly, the treasurer shall establish a process for annual review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- 1. Control of collusion,
- 2. Separation of transaction authority from accounting and record keeping,
- 3. Custodial safekeeping,
- 4. Avoidance of physical delivery securities,
- 5. Clear delegation of authority to subordinate staff members,
- 6. Written confirmation of telephone transactions for investments and wire transfers, and
- 7. Development of a wire transfer agreement with the lead bank or third party custodian.

Delivery vs Payment

All trades, where applicable, will be executed by delivery versus payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

Suitable and Authorized Investments

The following types of investments are authorized:

- 1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations.
- 2. Repurchase agreements.
- 3. Certificates of deposit.
- 4. Savings and loan association deposits.
- 5. Investment grade obligations of state and local government and public authorities.
- 6. The New Mexico State Treasurer's Local Government Investment Pool.
- 7. Prime commercial paper.
- 8. Money market mutual funds.
- 9. Forward purchase agreements

The following types of investments are prohibited:

- 1. Banker's acceptances.
- 2. Derivative instruments.
- 3. Any investment instrument not authorized by this policy.

Collateralization. Certificates of deposit and repurchase agreements shall be collateralized or insured at 102 percent of face value.

Investment Parameters

A. Diversification. The City will diversify its use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution or at a single maturity.

B. Maximum Maturities.

- 1. To limit the city's exposure to the possibility of loss due to interest rate fluctuations, the City will not commit any funds, with the exception of trust and bond funds, to maturities longer than three years from the date of purchase.
- 2. On investments made as legal reserves for bonded indebtedness, the maturity date will not exceed the final maturity date of the bond issue to which they are pledged.
- 3. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as overnight repurchase agreements or money market mutual funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Investment Advisory Group

- 1. Members of the Investment Advisory Group shall include the mayor, the deputy mayor, the city manager, the treasurer, the city attorney, another department head selected by the city manager, and a resident of the City who has demonstrable experience in financial matters. The city manager shall chair the group.
- 2. The mayor, with the approval of the City Council, shall appoint the resident Member who shall then serve a term of two years from the date of the appointment.

Reporting

- 1. Methods. The City treasurer shall prepare for the Governing Body and city manager an investment report, at least quarterly.
- 2. Performance Standards. The investment portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.
- 3. Marking to Market. The market value of securities with a maturity period longer than one year shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.