

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 Fiscal 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 Fiscal Services Director is responsible for maintaining a budgetary control system to ensure adherence to the adopted budget. On a quarterly basis, the Fiscal 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 mid-year service reductions.

User Fees

City services and facilities that provide direct and identifiable benefits to citizens are generally funded through user fees. The City will seek to recover the full cost of services provided directly to citizens, unless a City interest is identified and approved by the Governing Body to reduce a specific fee. Full cost is defined to include all direct costs to provide the service and appropriate related indirect cost.

Fees assessed at less than full cost are established to achieve an objective related to a user group, such as providing easier access to programs or encouraging participation by certain targeted groups such as youth or lower income individuals.

Each department will periodically identify all program costs and develop fee recommendations to the City Manager and the Governing Body.

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's goal shall be to establish and maintain a total General Fund balance of not-less-than approximately fifteen percent (15%) nor 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 Fiscal 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.

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.

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.