

# CITIZEN'S GUIDE

## Budget Preparation

The City of Roanoke first began using the Budgeting for Outcomes (BFO) process to develop fiscal year budgets with its Fiscal Year 2011-2012 Adopted Budget.

### What is Budgeting for Outcomes?

- Budgeting for Outcomes is a budget process that allocates the City's revenues to outcomes that focus on results and priorities.
- City Council has identified seven (7) priorities for the City of Roanoke as the primary basis for developing the budget, which include Economy, Education, Good Government, Human Services, Infrastructure, Livability, and Safety. Beginning in Fiscal Year 2013-2014, a separate "priority" was established to administratively review funding requests submitted by outside agencies.
- This process puts the citizen's perspective and their priorities first, and allows for more meaningful allocation of resources.
- The General Fund revenue estimate, or the "price of government" is determined by the Department of Finance.



### Why Budgeting for Outcomes?

- The Budgeting for Outcomes process provides a structured process for linking spending to outcomes, as well as a logical methodology for prioritizing activities and programs. This process is designed to facilitate collaboration and flexibility in the organization, while avoiding inefficient budgetary practices such as across the board budget cuts.

### How does it work?

- STEP 1: Set Priorities  
City Council sets and approves the major priorities that government services should address that best reflect the views of citizens. As noted above, those priorities are currently: Economy, Education, Good Government, Human Services, Infrastructure, Livability, and Safety.
- STEP 2: Determine the "Price of Government"  
The Department of Finance, in conjunction with the Budget Committee, determines the revenue estimate for the upcoming fiscal year. The revenue estimate is continually revised in order to be as accurate as possible.

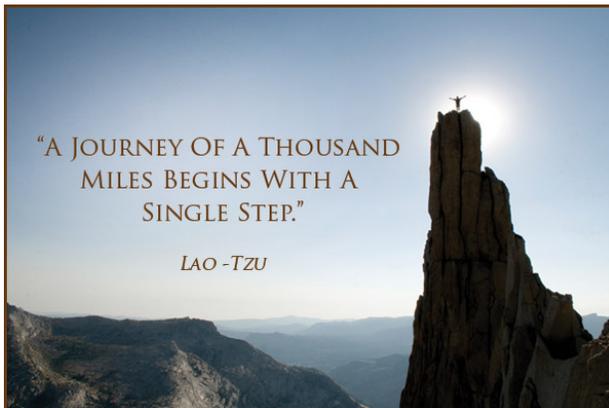
- STEP 3: Create/Review the Request for Results

Beginning in Fiscal Year 2011-2012, a team of 8 to 10 employees from across the City were appointed by the City Manager for each of the seven priorities. Each team was tasked with determining the key indicators to measure progress toward achieving the priority's desired outcomes and identifying the factors that should be addressed to meet them. They also identified the best strategies to pursue in order to achieve the City's priorities. Purchasing plans and Request for Results were then developed for each priority. In the subsequent fiscal years, teams were convened to review these Request for Results documents and made revisions where appropriate.

- STEP 4: Invite Offers

The priority teams' Request for Results documents are part of the budget instructions that are provided to all departments and outside agencies for developing their offers. Offers for service can only be submitted to one Priority Team, although the service may support other priorities. Departments and outside agencies are required to provide performance measures for service delivery for achieving desired outcomes in order to build accountability into the process, and make monitoring and evaluation possible. For Fiscal Year 2012-2013, a "scorecard" criterion was developed to allow sellers to score each of their own offers to aid in the ranking process. In Fiscal Year 2013-2014, the scorecard was revised, and in Fiscal Year 2014-2015, it was further streamlined to four elements. The scoring elements now include:

whether the program or service is mandated; if there is cost recovery for the program; if there is a change in demand for service; and the impact to the other priorities.



- STEP 5: Rank and Make Recommendations for Funding of Offers

In past years, the priority teams performed a peer review on the score of each offer and revised the score if necessary based on its evaluation of how

the offer met the scorecard criteria. Beginning in Fiscal Year 2014-2015, instead of the teams performing a peer review as a group, each team member kept their own notes on the strengths and weaknesses of each offer based on the team discussion and their own knowledge of the service. Each team member then individually ranked the offers in descending order in their perceived order of importance in meeting the outcomes of the priority. The Management and Budget Analyst combined the rankings of all the team members to come up with an overall ranking. This process is based on a Lean prioritization tool known as "Nominal Group Technique". It allows each team to come to a consensus on the relative importance of each offer by incorporating individual importance rankings into the team's final prioritized listing.

In fiscal years 2015-2016 and 2016-2017, there was also an emphasis on having the priority teams evaluate the incremental increase requested in the various offers. The intent was for the teams to allocate the increase into various categories. In the fiscal year 2017-2018 budget process, with revenues projected to decline, departments were asked to submit offers at levels below their fiscal year 2016-2017 adopted

budgets. They could submit supplemental requests to support contract increases or inflationary increases as well as increases to support new services or enhancements to current services. The priority teams were requested to allocate the offers, both base and supplemental, into one of four categories: critical impact to service, minimal impact to service, no impact to service, or service enhancement. The teams also made funding recommendations on the items in each category. These allocation and funding recommendations were reviewed with the Budget Committee for its additional consideration.

- **STEP 6: Director Budget Workshop**

After completion of the Priority Team meetings, two half day director budget workshops were held for directors' input on balancing the budget. Directors were asked to prioritize their offers from highest to lowest importance for their departments. The goal for the directors' workshops was to work together to support and challenge each other regarding the contributions each could make toward balancing the City's budget.

- **STEP 7: Decide What to Buy**

The Budget Committee may make decisions to shift dollars among priorities as well as review recommendations from the Priority Teams. The Committee will make further funding adjustments where appropriate. The City Manager in conjunction with the Budget Committee reviews the prioritized services and recommends the budget to City Council after revisions are completed.

### **What is the impact on the existing organizational structure?**

- Creating a budget that will allow the City to increase service levels and to begin rebuilding capacity in strategic areas while minimizing tax and fee increases.
- Creating a more transparent budget process involving employees throughout the organization.
- Changing the community culture to service collaboration to meet community priorities.

## **Budget Document**

The budget document has been organized to make it easy for all users to find information. "Budget Overview" follows the City Manager's Message and contains highlights of each of the more detailed budget sections.

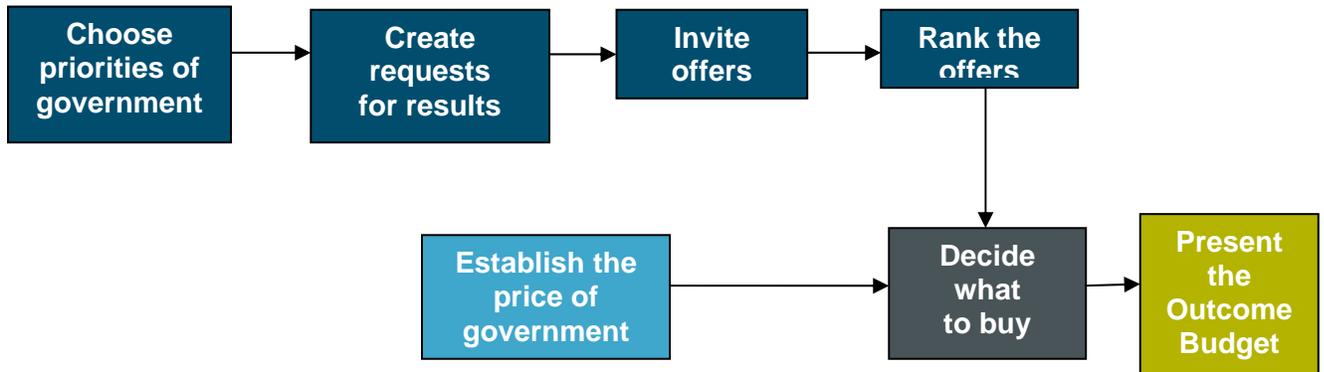
The Budget Overview can be used in conjunction with the Budget Summary section of this document to examine the City's spending plan for the upcoming fiscal year, to identify increases or decreases in estimated revenues and recommended expenditures, to compare past years' revenues and allocations and to learn the reasoning behind resource allocation recommendations.



A glossary of acronyms and terms used here and in the remainder of the budget document can be found in the Appendix section at the end of this document.

# Budgeting Process

## Budgeting for Outcomes Process

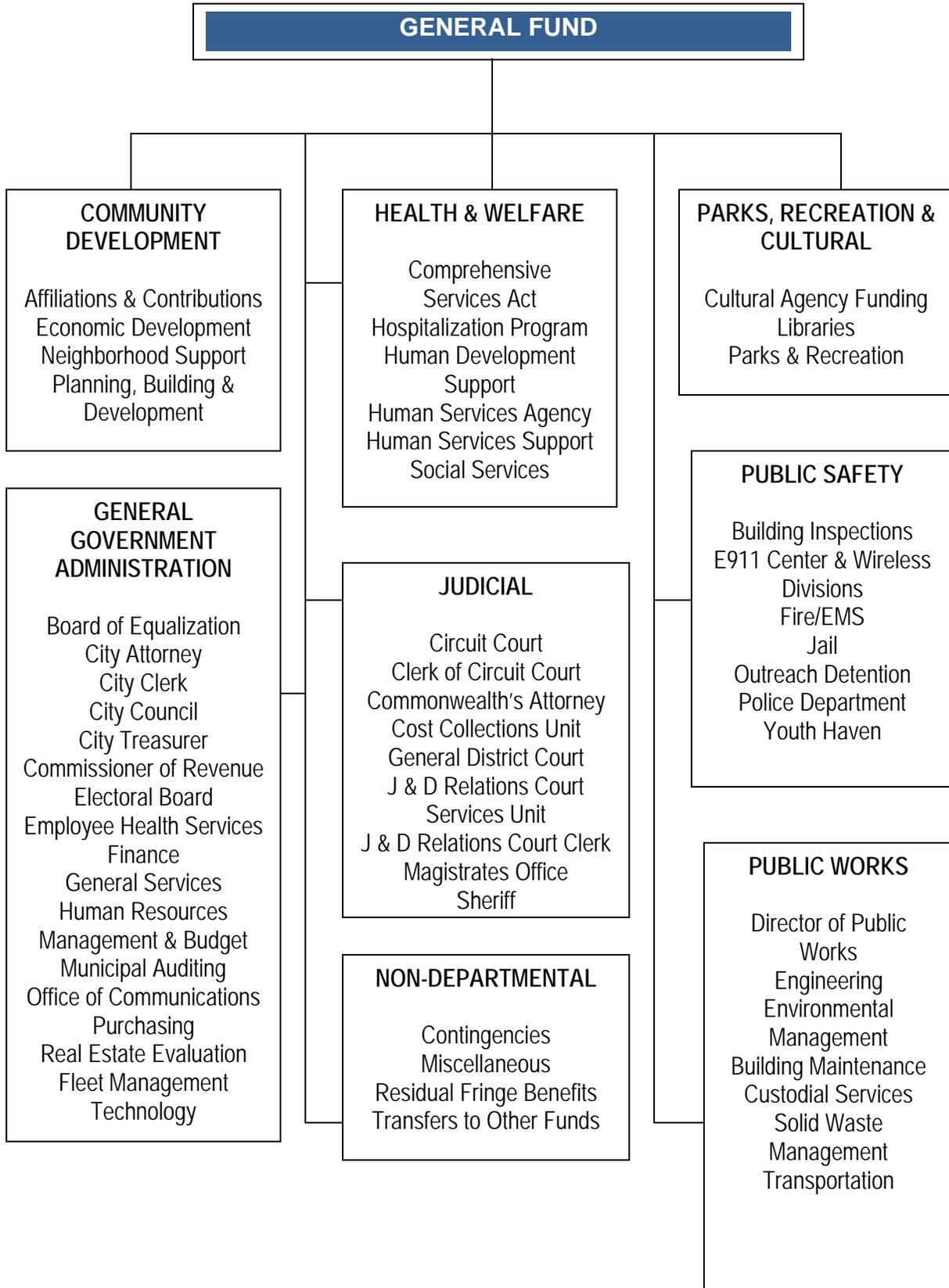


## BUDGET PREPARATION CALENDAR

### Fiscal Year 2017 – 2018

Month	City Council	City Administration
September 2016	<b>September 23</b> <ul style="list-style-type: none"> <li>City Council reviews and affirms BFO Process</li> <li>City Council re-affirms 7 major priorities</li> </ul>	
November 2016		<b>November 22 &amp; 29</b> <ul style="list-style-type: none"> <li>Director/Assistant City Manager discussion for Operations and Community Development</li> </ul> <b>November 21</b> <ul style="list-style-type: none"> <li>Leadership Team Kickoff</li> </ul>
December 2016	<b>December 19</b> <ul style="list-style-type: none"> <li>City Council adopts Budget Calendar</li> </ul>	<b>All December</b> <ul style="list-style-type: none"> <li>Offer Development by City Departments</li> </ul> <b>December 1</b> <ul style="list-style-type: none"> <li>Outside Agency instructional meeting</li> </ul>
January 2017	<b>January 3</b> <ul style="list-style-type: none"> <li>City Council Budget Presentation</li> </ul>	<b>January 3</b> <ul style="list-style-type: none"> <li>Offers completed by Sellers</li> <li>Information Technology Committee projects due</li> </ul> <b>January 12</b> <ul style="list-style-type: none"> <li>CIP Discussion with Managers</li> </ul> <b>January 20</b> <ul style="list-style-type: none"> <li>Offer review completed by Management &amp; Budget</li> </ul> <b>January 23</b> <ul style="list-style-type: none"> <li>Offer Reviews by Priority Teams Begins</li> </ul> <b>January 26</b> <ul style="list-style-type: none"> <li>Outside Agency Applications due</li> </ul>
February 2017	<b>February 6</b> <ul style="list-style-type: none"> <li>City Council Budget Presentation</li> </ul>	<b>All February</b> <ul style="list-style-type: none"> <li>Offers Reviewed by Priority Teams</li> <li>Budget Committee Meetings</li> </ul> <b>February 27</b> <ul style="list-style-type: none"> <li>Priority Team funding recommendations to Budget Committee</li> </ul>
March 2017	<b>March 6</b> <ul style="list-style-type: none"> <li>City Council Budget Presentation</li> </ul>	<b>All February</b> <ul style="list-style-type: none"> <li>Budget Committee Meetings</li> </ul> <b>March 17 &amp; 24</b> <ul style="list-style-type: none"> <li>Directors/ACM Budget Balancing Workshops</li> </ul>
April 2017	<b>April 3</b> <ul style="list-style-type: none"> <li>City Council Budget Presentation</li> </ul> <b>April 17</b> <ul style="list-style-type: none"> <li>FY 2018 Recommended Budget presented</li> </ul> <b>April 27</b> <ul style="list-style-type: none"> <li>Public Hearing on FY 2018 Recommended Budget</li> </ul>	<b>All April</b> <ul style="list-style-type: none"> <li>Budget Committee Meetings</li> </ul>
May 2017	<b>May 1</b> <ul style="list-style-type: none"> <li>Budget Study</li> </ul> <b>May 15</b> <ul style="list-style-type: none"> <li>FY 2018 Budget Adopted</li> </ul>	
June 2017		<b>June 19</b> <ul style="list-style-type: none"> <li>FY 2018 Adopted Budget made available for public inspection</li> </ul>

# OPERATING FUNDS STRUCTURE



NOTE: For description of funds, please refer to the "Glossary of Terms" in the Appendix section.

# OPERATING FUNDS STRUCTURE

## PROPRIETARY FUNDS

### ENTERPRISE FUNDS

Civic Facilities Fund  
Parking Fund  
Storm Water Utility Fund

### INTERNAL SERVICE FUNDS

Risk Management Fund

## CAPITAL FUND

Buildings  
Economic Development  
Parks  
Schools  
Storm Drains  
Streets, Sidewalks and Bridges  
Proprietary

## SCHOOL FUND

EDUCATION  
Roanoke City Public Schools

## HUD GRANT FUNDS

CDBG, HOME & ESG  
Funds

NOTE: For description of funds, please refer to the "Glossary of Terms" in the Appendix section.

The operating funds are comprised of three sections, the General Fund, Proprietary Funds and School Fund as illustrated in the Operating Funds Structure chart. Programs in the General Fund are organized into the following seven priorities:

- Economy
- Education
- Good Government
- Human Services
- Infrastructure
- Livability
- Safety

Roanoke's three Enterprise Funds (Civic Facilities, Parking, and Storm Water Utility) and one Internal Service Fund (Risk Management) are included in the Proprietary Funds section.

This document also includes a summarized section for the Capital Improvement Program and for the HUD Consolidated Plan. It does not contain specific appropriations in the Capital Projects Fund, Debt Service Fund, nor the Special Revenue Fund (sometimes referred to as the Grant Fund). However, money being appropriated to these funds may be found as a transfer out of the General Fund. A majority of the ongoing projects being accounted for in the Capital Projects Fund and Special Revenue Fund are appropriated throughout the year as specific revenue providing for capital projects or grants becomes identified. The Special Revenue Fund is the only non-major fund; all other funds are considered major funds for financial reporting purposes. All funds annual revenues and expenditures may be found in the City's audited financial report, the Comprehensive Annual Financial Report (CAFR).

### **The Format for Budget Expenditures**

Budget expenditure sections (Departments and Units) are organized according to categories prescribed by the Commonwealth of Virginia's Auditor of Public Accounts. Departmental summaries may be found in the Budget Summaries section of this document. Otherwise, for purposes of evaluating the budget, expenditure line items are grouped into Offers that are focused on the programs/services that Department/Units provide and submitted to a specific Priority as mentioned above. Each Offer may pull from a cross section of Departments, Units, or Expenditures. Evaluating the budget by Offers allows for a more collaborative view of the program or service. Nevertheless, Departmental summaries are still very important as they serve to place accountability on Directors for maintaining their budgetary controls throughout the year.

All new programs or initiatives recommended for funding are included in the recommended budget. City Council is encouraged to review and modify any program included. Therefore, at its discretion, City Council may approve some, all, or none of the new programs. The adopted budget will include the recommended budget with revised programs or initiatives which City Council has approved.

## **The Relationship between the Capital Improvement Program (CIP) and the Budget**

The City also prepares a five-year Capital Improvement Program (CIP), which is included in the Capital Improvement Program Summary section of this document. The CIP specifies those capital improvement or construction projects which will be funded over the next five years in order to maintain or enhance the City's estimated \$1.0 billion in capital assets. In addition, the CIP budget prescribes a funding method for those projects. Financial resources used to meet priority needs established by the CIP are accounted for through the Capital Projects Fund. Not all capital projects are listed in the CIP simply because there are so many. There is no dollar threshold to determine which projects are included, however, any project being funded through debt or which could be deemed significant during the five year period is included.

The primary expenditure related to the CIP that is included in the budget is funding for debt service payments for general obligation bonds or other types of debt required to fund specific Capital Improvement Program projects. The Budget Summary section of this document provides detailed information on debt management issues.

### **Amending the Budget**

The budget may be amended or revised in two ways: via a transfer by the City Manager or by Council approval. The City Manager is authorized to transfer any amount within or between funds. The Director of Finance reports all transfers between funds and between project or program accounts in the Capital Project and Grant Funds that are in excess of \$100,000 to City Council on a quarterly basis. All other amendments in the form of transfers or supplemental appropriations must be presented to and approved by City Council.

In addition, any proposed amendment which exceeds one percent of the total expenditures shown in the currently adopted budget must be accomplished by publishing a notice of a meeting and a public hearing once in a newspaper having general circulation in that locality at least seven days prior to the public hearing date. After hearing from citizens, City Council may amend the budget.

### **Basis of Budgeting and Accounting**

In accordance with GASB, the City of Roanoke utilizes several different funds to appropriately segregate resources based on the nature of activities and funding sources/restrictions.

**Governmental Funds** – Uses the modified accrual basis of accounting, which means that obligations of the City are budgeted as expenditures; however, revenues are recognized only when they are measurable and available.

- **General Fund** - Accounts for expenditures that comprise the regular day-to-day operations of the City that are not accounted for in other funds. The primary sources of revenue for this fund are local taxes and Federal and State funding.

- Capital Projects Funds – Accounts for financial resources that will be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) such as buildings, parks, schools, streets, etc. Includes projects for both the City and the school system. The primary source of revenue for these funds comes from the issuance of bonds.
- Grant Fund – Accounts for asset contributions made to the City from government units or other organizations.
- **Proprietary Funds** – Uses the accrual basis of accounting, where expenditures are recognized when a commitment is made and revenues are recognized when they are obligated to the City. Includes those activities in which services are provided for a fee, both internally and externally.
  - Enterprise Funds – Accounts whereby operating expenses are recovered in the form of charges to users for such services. Included in this category are: Civic Facilities, Parking, and Storm Water Utility.
  - Internal Service Funds – Accounts for goods or services provided internally by one department to another within City government on a cost-reimbursement basis. The only fund included in this category is Risk Management.



The Comprehensive Annual Financial Report (CAFR) shows the status of the City's finances on the basis of "generally accepted accounting principles" (GAAP). In most cases, this conforms to the way the City prepares its budget. Exceptions include:

- For budgetary basis, encumbered and continuing appropriations are recorded as the equivalent of expenditures as opposed to a reservation of fund balance for GAAP.
- Accrued compensated absences are not considered to be expenditures until paid for GAAP.
- General staff and administrative charges are recognized as direct expenses of the Enterprise Funds as opposed to being accounted for and funded by operating transfers.
- Principal payments on long-term debt within the Enterprise Funds are applied to the outstanding liability, as opposed to being expended on a Budget basis.
- Capital outlays within the Enterprise Funds are recorded as assets and depreciated over the life of the asset for GAAP. However, they are budgeted as expenditures in the year purchased.
- Interest capitalized on construction projects is budgeted as interest expense.
- Fixed asset inventory is an expense when purchased for budget basis, but for GAAP it is not an expense until used or sold.

- For budget basis, debt issue and discount costs are considered to be expended when paid, not capitalized and amortized over the life of the bonds.
- Most revenues such as taxes, fines, forfeitures, and charges for services are considered to be revenue when received for budget purposes, rather than when earned for GAAP.
- For budgetary purposes, proceeds from the sale of assets are recognized as revenue; however, the related gain or loss is not.

The CAFR also shows fund expenditures and revenues on both the GAAP basis and Budget basis for comparison purposes.

### **Citizen Engagement**

Citizen engagement is very important for the City of Roanoke. The City of Roanoke offers citizens to give input in the budget process through public hearing opportunities and surveys. Citizens Engagement brings government and citizens together to foster collaborative conversations, build positive relationships and create new innovative ways to get citizens involved. Citizens are given the opportunity twice a month to attend council meetings and to speak upon public matters.

### **Financial Planning and Policies**

City Council and City Staff had financial planning work sessions to facilitate budget and capital project planning. The work sessions focused on revenue outlook, trends, revenue issues, priority expenditures, expenditure issues, capital projects and debt for capital projects.

The financial guidelines and policies that serve as the framework for the financial operation of City government and the basis for budget development are contained in this section of the budget document.

## **FINANCIAL GUIDELINES AND POLICY STATEMENTS**

### **Budget Guidelines**

- Roanoke will adhere to all Federal, State and local legal requirements pertaining to the operating budget.
- Roanoke will employ a structured budget preparation and formulation process that will be used by all entities receiving funding from the City. The process employed will ensure adequate citizen input and participation.
- Roanoke will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing necessary expenditures, accruing future years' revenues or rolling over short-term debt.

- Roanoke will maintain a budgetary control system to ensure adherence to the budget.
- Roanoke will establish a budget contingency to provide for unanticipated expenditures of a non-recurring nature, or to meet unexpected small increased service delivery costs. The target will be 0.5% of the General Fund Budget and will be budgeted annually as part of the General Fund.
- Roanoke will employ a structured expenditure and revenue forecasting system to allow for effective financial planning.
- The budget will provide sufficient funding to cover annual debt retirement costs.
- Roanoke administration will prepare regular reports comparing actual revenues and expenditures to budgeted amounts.
- An independent audit will be performed annually and a management letter received by City Council.
- The City administration will promptly evaluate the audit management letter recommendations, determine the proper actions in response to these recommendations and complete, within established time frames, all actions that correct or otherwise resolve the matters included in the management letter.
- The City of Roanoke will continue to annually prepare a budget consistent with the guidelines established by the Government Finance Officers Association to achieve the Distinguished Budget Award Program.
- Roanoke will adopt a balanced budget in which operating revenues equal operating expenditures.



### **Expenditure Guidelines**

- Essential services, such as Police, Fire, Emergency Medical Services, and related public safety services, will receive first priority for funding. The City will attempt to maintain current service levels for all essential services.
- Roanoke will identify low priority services for reduction or elimination, if necessary, before essential services.
- Roanoke will consider the establishment of new user fees or increases in existing fees as an alternative to service reductions or elimination.
- In all actions to balance the budget, Roanoke will attempt to avoid layoffs of permanent employees. Any personnel reductions will be scheduled to come primarily from attrition.

- Roanoke will pay for all current expenditures with current revenues. Long-term debt and year-end undesignated fund balances will not be used for funding current expenditures.
- The City of Roanoke will annually review capital asset acquisition, maintenance and replacement issues and provide funding as available through the undesignated fund balance.
- Roanoke will consider as high funding priorities technological and capital investment programs which are cost effective and which will reduce operating costs.
- Where possible, Roanoke will integrate service level measures and performance/productivity indicators with the budget.
- Roanoke will employ a budgetary encumbrance control system to ensure proper budgetary control.

## Reserve Policies

### Unassigned General Fund Reserve

- **Reserve Floor**—Roanoke will target an unreserved, “Unassigned General Fund Reserve” equal to 10% of General Fund Expenditures. This level of reserves is intended to provide the City with sufficient working capital and margin of financial safety to address unforeseen, one-time expenditure emergencies or significant unforeseen declines in revenues in a specific fiscal year, for which there is no other current budgetary resource available, or other categories of fund balance available to satisfy the funding needed. The Unassigned General Fund Reserve will be reported in the Unassigned category on the City’s Governmental Funds Balance Sheet in the General Fund.
- **Reserve Drawdown**—Drawdown of the Unassigned General Fund Reserve shall occur only by authorization of City Council. Funds may only be used for the purposes described above, which cannot be covered from contingencies or other sources. The Unassigned General Fund Reserve may not be used for balancing the annual budget due to recurring declines in revenue sources or recurring expenditure increases.
- **Reserve Replenishment**—In the event the Unassigned General Fund Reserve is used; it will be restored to its minimum level within three fiscal years. The Director of Finance will submit a plan in writing to City Council that will restore the Unassigned General Fund Reserve to its minimum level within three fiscal years.

### Risk Management Reserve

The City will maintain a Risk Management Reserve to cover some of the risk exposure the City has due to its self-insurance program. The City is currently self-insured for Health, Workers’ Compensation, General Liability, and Automobile claims. The Risk Management Reserve will remain in the Risk Management Fund, an internal service fund of the City, as fund balance.

- **Reserve Floor**—The minimum funding level for the Risk Management Reserve is:
  - 25% of the three year average of self-insured claims costs,
  - Plus 10% of the three year average of fully insured premiums,
  - Plus a \$1 million catastrophic reserve.
- **Reserve Drawdown**—Use of the Risk Management Reserve will be used to fund unanticipated risk management expenses.
- **Reserve Replenishment**—In the event the Risk Management Reserve declines below its target level; it will be restored to its minimum within three fiscal years. The Director of Finance will submit a plan in writing to the City Council that will restore the Risk Management Reserve to its minimum level within three fiscal years.

## Economic Downturn Reserve

- **Reserve Floor**— In addition to the 10% Unassigned General Fund Reserve, Roanoke will target an “Economic Downturn Reserve” to smooth its financial operations in the event of an economic downturn. The Economic Downturn Reserve will be maintained in an amount up to 5% of the General Fund Expenditure budget for the current year. The Economic Downturn Reserve will be reported in the Assigned category on the City’s Governmental Funds Balance Sheet in the General Fund.
- **Reserve Drawdown**— Drawdown of the Economic Downturn Reserve shall occur only by authorization of City Council. Drawdowns will be limited to less than one-half of the fund balance in any fiscal year. Drawdowns must be made in combination with spending cuts or other measures. The Economic Downturn Reserve may only be used in the event that revenues decline by more than 1.5% of the current year estimate.
- **Reserve Replenishment**—In the event the Economic Downturn Reserve is used; it will be restored to its minimum level within three fiscal years. The Director of Finance will submit a plan in writing to City Council that will restore the Economic Downturn Reserve to its minimum level within three fiscal years.



## Economic and Community Development Reserve

The following Economic and Community Development and Reserve Policy (“E&CD Reserve”) is intended to demonstrate a commitment to financial planning for economic and community development projects which may provide future growth opportunities and expansion of the tax base in Roanoke. The E&CD Reserve will be maintained using the following guidelines:

- **Reserve Floor**—The E&CD Reserve will be maintained at or above a target level of \$1.0 million. The E&CD Reserve will be reported in the committed category on the City’s Governmental Funds Balance Sheet in the Capital Projects Fund.
- **Reserve Drawdown**—Use of the E&CD Reserve shall occur only by appropriation of City Council for economic or community development projects. Examples of qualifying uses include, but are not limited to, the purchase of property for economic development, economic development incentives, greenway development, and development of infrastructure to support other economic and/or community development projects. The E&CD Reserve may not be used for operating or recurring expenditures.
- **Reserve Growth and Replenishment**—The E&CD Reserve will be maintained at a level at or above its target by allocating interest earnings of the Capital Projects Fund and proceeds from the sale of surplus general government real property. In the event the E&CD Reserve declines below the target level of \$1.0 million, it will be restored to its minimum within three fiscal years. E&CD Reserve replenishment may be accomplished by allowing E&CD Reserve growth without appropriation of the E&CD Reserve or by transferring additional funds to the E&CD Reserve.

## **Reserve Funding Plan**

With the exception of the Unassigned Fund Balance Reserve and the Economic and Community Development Reserve, the reserve policies as outlined herein are higher reserve levels than the City currently maintains. In order to meet the various reserve levels, the City will add to its reserves using the funding sources described below and will fill each reserve according to the funding priorities, also described below. This funding method will continue until each reserve is fully funded.

### **Funding Sources**

- The City will strive to contribute annually, subject to funding availability, to the existing reserves in accordance with the funding priority described below. The City Manager and Director of Finance shall recommend a reserve funding level of at least \$250,000 to \$500,000 along with each annual budget submission. Additional funds may be directed toward the reserves based on year end surpluses.

### **Funding Priorities**

- First, the City will maintain the established Unassigned General Fund Reserve. The City has maintained the 10% minimum Unassigned General Fund Reserve balance since FY2011.
- Second, after the Unassigned General Fund Reserve level is satisfied, the City will fund the Risk Management Reserve. The City plans to meet the minimum Risk Management Reserve balance by FY2022.
- Third, after the Unassigned General Fund Reserve and Risk Management Reserves are fully funded, the City will fund the Economic Downturn Reserve.

## Revenue Guidelines

- Roanoke will take active measures to encourage economic development, thereby developing a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.
- Roanoke will maintain sound appraisal procedures to keep property values current. Property will be assessed at 100% of full market value and reassessments will be made of all property annually.
  - Roanoke will follow an aggressive policy of collecting all revenues due the City. The annual level of current uncollected property taxes generally will not exceed 1% of taxes assessed.



inflation and other cost increases, and will revise user fees accordingly with review of the Council.

- Roanoke will establish all user charges and fees at a level closely related to the full cost of providing the services (i.e., direct, indirect and capital costs); taking into consideration similar charges/fees being levied by other public and private organizations.
  - Roanoke will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other cost increases, and will revise user fees accordingly with review of the Council.
- The targeting of specific revenues for special programs or projects is discouraged, as it promotes fiscal inflexibility; however, intergovernmental grant assistance will be targeted as much as possible toward capital improvements.
- Roanoke will aggressively seek Federal and State grant and capital improvement funds and evaluate future local fiscal impact.
- The General Fund undesignated fund balance will not be used to balance the budget. These funds will be used for non-recurring capital acquisition items.

## Debt Management Policy

### Introduction

One of the keys to sound financial management is the development of a debt policy. This need is recognized by bond rating agencies, and development of a debt policy is a recommended practice by the Government Finance Officers Association. A debt policy establishes the parameters for issuing debt and managing the debt portfolio. It provides guidance to the administration regarding purposes for which debt may be issued, types and amounts of permissible debt and method of sale that may be used. The following debt policy is intended to demonstrate a commitment to long-term financial planning. It will be used in conjunction with the Capital Improvement Programs for both the City and School Board. Adherence to this policy will help assure maintenance of the City's double-A credit ratings.

## **Guidelines for Debt Issuance**

- The City will prepare and update annually a five-year Capital improvement Program (CIP) to be approved by City Council. The CIP will be developed with an analysis of the City's infrastructure and other capital needs, and the financial impact of the debt service required to meet the recommended financing plan. The City will strive to fund at least 10% of the CIP projects' aggregate cost on a cash basis.
- As part of the annual Capital Improvement Program, the Schools shall furnish the City a schedule of funding needs for any school projects for which the issuance of long-term debt is planned.
- Each project proposed for financing through debt issuance will have an analysis performed for review of tax impact and future operating costs associated with the project and related debt issuance costs.
- All proceeds from debt issuance for the City of Roanoke and the City of Roanoke School Board shall be appropriated by City Council.
- Proceeds from the issuance of debt shall be monitored by the investment custodian with regard to arbitrage. Compliance with all applicable federal tax requirements shall be made. The City will coordinate with its investment managers with regard to expected project funds payout so as to maximize investment earnings in light of federal arbitrage requirements.
- Long-term debt will be issued to purchase or construct capital improvements or equipment with a minimum expected life of five years. The City will not use long-term borrowing to finance annual operating needs. 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.
- The City will attempt to avoid short-term debt to provide cash flow for annual operations. Debt issued for operating purposes will be limited to cases where there is reasonable certainty that a known source of revenue will be received in the current fiscal year sufficient to repay the debt or where there is a clear financial emergency.
- The City will comply with all applicable U.S. Internal Revenue Service and U.S. Treasury arbitrage requirements for bonded indebtedness in order to preserve the tax-exempt status of such bonds.
- Bond issues should be planned to minimize the frequency of issuance, thereby ensuring the lowest possible costs of issuance. When determining the size of a bond issue, consideration should be given to the need for construction, debt service and capitalized interest funds. Construction fund draw schedules shall be prepared, and projection of conservative earning on unspent bond funds should be made in conjunction with planning of the City's Capital Improvement Program.
- The decision to use bond proceeds to pay interest during construction for revenue-producing projects shall be made on a case by case basis and shall be based on an evaluation of the opportunity cost of funds and the availability of other sources of funds to pay interest costs.

- General obligation bonds will be amortized on a level principal basis to the extent practical, and revenue bonds will be amortized on a level debt service basis to the extent practical considering the forecasted available pledged revenues.



- The City shall not endorse the obligation of any entity other than the City of Roanoke or Roanoke School Board. However, the City may enter into contracts with other regional or local public entities with respect to public purpose projects, which provide for certain payments when project or entity revenues prove insufficient to cover debt service on

obligations issued to finance such project(s). The City will enter into these type agreements only when there is long-term public and financial interest in the regional or local project. The obligation could be structured as Moral Obligation Bonds, or with an underlying support agreement or other contractual arrangement. These obligations do not affect the legal debt limit of the City and any payments are subject to annual appropriation. However, if such payments were made, the obligations would be considered tax-supported debt.

- The City's preferred method of sale of bonds is via competitive sale to underwriters. If deemed advantageous, the City may sell bonds via a negotiated sale, private placement, or other method. Coordination will be made with the City's financial advisor in arriving at a recommendation to issue bonds through a method other than competitive sale.

## Underwriter Selection

- **Senior Manager Selection**—The City shall select a senior manager for any proposed negotiated sale. The selection criteria shall include, but not be limited to, the following:
  - Ability and experience in managing transactions similar to that contemplated by the City;
  - Prior knowledge and experience with the City;
  - Ability and willingness to risk capital and demonstration of such risk and capital availability;
  - Quality and experience of personnel assigned to the City's engagement;
  - Financing plan; and
  - Underwriting fees.
- **Co-Manager Selection**—Co-managers may be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.
- **Underwriter's Counsel**—In any negotiated sale of City debt in which legal counsel is required to represent the underwriter; the appointment will be made by the Senior Manager with final approval from the City.

- **Underwriter's Discount**—The City will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the City will determine the allocation of underwriting liability and management fees, if any.

The allocation of fees will be determined prior to the sale date; a cap on management fees, expenses and underwriter's counsel fee will be established and communicated to all parties by the City. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

- **Evaluation of Underwriter Performance**—In conjunction with its financial advisor, the City will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.
- **Designation Policies**—To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:
  - Fairly allocate bonds to other managers and the selling group;
  - Comply with Municipal Securities Rulemaking Board (MSRB) regulations governing the priority of orders and allocations; and
  - Within 10 working days after the sale date, submit to the City a detail of orders, allocations and other relevant information pertaining to the City's sale.

## **Limitations on Level of Debt to be Issued and Outstanding**

### **Constitutional and Statutory Limitations:**

- Article VII, Section 10 of the Constitution of Virginia, the Public Finance Act and the City Charter established the City's Legal Debt Margin at 10% of the assessed value of real estate within the City shown by the last preceding assessment for taxes.
- The Public Finance Act and the City Charter also establish other limits as to the amounts and types of debt the City may issue.

### **Self-Imposed Debt Targets:**

- Net tax-supported debt as a percentage of the total taxable assessed value in the City (including real, personal property, and public service corporations) will not exceed 4%. For the entire City's self-imposed debt targets, the City may exclude all or a portion of any bonds or leases that are self-supporting.
- Net tax-supported general obligation debt service shall not exceed 10% of General Fund expenditures.
- Net tax-supported debt will be structured in a manner such that not less than 60% of the aggregate outstanding tax-supported debt will be retired within ten years.

## Types of Debt Issuance

- The City may issue general obligation debt for capital or other properly approved projects
- The School Board may use the Virginia Public School Authority (VPSA), Qualified Zone Academy Bonds (QZAB), Qualified School Construction Bonds (QSCBs), or State Literary Fund loans to finance school capital projects. Such debt issued on behalf of the School Board constitutes general obligation debt of the City. The City Manager and the Director of Finance shall approve any application to the Commonwealth of Virginia for such debt. City Council shall approve the issuance of the bonds as required by the Public Finance Act. The School Board shall approve such financings before requesting City Council approval.
  - The City may issue revenue bonds to fund proprietary activities such as water and water pollution control utilities, or for other capital projects that generate adequate revenues from user fees to support operations and debt service requirements. The bonds will include written legal covenants which require that revenue sources are adequate to fund annual operating expenses and annual debt service requirements.
- Capital leases may be used to purchase buildings, equipment, furniture and fixtures. The term of any capital lease shall not exceed the useful life of the asset leased. Revenue bonds may be issued by the City or other entity that are secured by a City capital lease.
- Short-term borrowing may be utilized for interim financing or for other purposes as described below. The City will determine and utilize the least costly method for short-term borrowing subject to the following policies:
  - Bond Anticipation Notes (BANs) may be issued for capital related cash purposes to reduce the debt service during the construction period of a project or to provide interim financing for a project. The BANs shall not mature more than 5 years from the date of issuance.



- Lines of Credit shall be considered as an alternative to other short-term borrowing options.
  - Other Short-Term Debt may be used when such instruments provide an interest rate advantage or as interim financing.
- Lease financing and master lease obligations, including lease revenue bonds, may be considered as alternative financing structures.

## Refunding of Debt

The City will refund debt when it is in the best financial interest of the City to do so.

- **Debt Service Savings**—When a refunding is undertaken to generate interest rate cost savings, the minimum aggregate present value savings will be 3% of the refunded bond principal amount. The present value savings will be net of all costs related to the financing. If

present value savings is less than 3%, the City may consider the refunding efficiency as measured by option value. If the refunding efficiency of a refunding candidate exceeds 70% (on a maturity-by-maturity basis) and present value savings is less than 3%, the City may opt to increase the universe of refunded bonds.

- **Restructuring**—Refundings for restructuring purposes will be limited to restructuring to alleviate debt service during difficult budgetary years, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.
- **Term of Refunding Issues**—The City will refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City also may consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.
- **Escrow Structuring**—The City shall utilize the least costly securities available in structuring refunding escrows. A certificate will be provided by a third party agent stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.
- **Arbitrage**—The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refundings. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

## **Investor Relations, Disclosure and Communication**

- The debt ratios outlined above will be computed annually and reported in the Comprehensive Annual Financial Report, along with a computation of net tax-supported debt per capita.
- The City will maintain communication with bond rating agencies to keep them abreast of its financial condition by providing them the City's Comprehensive Annual Financial Report, Annual budget, and Capital Improvement Program.
- The City will comply with all of its undertakings in accordance with Securities and Exchange Commission Rule 15c2-21.

## **Debt Service Fund Balance**

- The fund balance of the Debt Service Fund shall be reserved for the future payment of annual principal and interest payments, which includes general obligation bonds of the City, including school debt.