

# ORGANIZATIONAL STRUCTURE

## **Fund Accounting**

The accounts of the City of Asheville are organized and operated on the basis of funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Funds included in the City of Asheville Adopted budget can be grouped into two types: governmental funds and proprietary funds. Governmental funds are those through which most functions of the City are financed. Proprietary funds are used to account for City activities that are similar to those often found in the private sector. Specific City of Asheville funds include:

## **General Fund**

The General Fund is a governmental fund that encompasses most of the City's day-to-day operations, such as police, fire, refuse collection, street maintenance, and parks and recreation. General Fund operations are primarily funded through property tax dollars, but are also supported through sales tax revenue, charges for service, license & permit fees, and investment earnings.

## **Enterprise Funds**

Enterprise Funds are proprietary funds used to account for activities that operate like private businesses, where expenses are primarily financed by revenues derived from user charges. For the City of Asheville, these funds include:

- Transit Services Fund
- Parking Services Fund
- Water Resources Fund
- US Cellular Center Fund
- Stormwater Fund
- Street Cut Utility Fund

## **Capital & Special Revenue Funds**

Capital Funds are used to account for capital replacements and improvements, and Special Revenue Funds are used to account for specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. Funding is provided from operations, federal or state grants, or long-term financing and may be annual appropriations or project appropriations. Appropriations are approved through the Capital Improvement Plan process. Capital & Special Revenue Funds include:

- General Capital Projects Fund
- Community Development Fund
- Water Major Capital Improvement Fund
- HOME Fund
- US Cellular Center Capital Fund
- Parking Services Capital Fund
- Transit Services Capital Fund

## **How Funds Interact**

City funds interact in a variety of ways. Expenses that occur in one fund are frequently incurred to benefit another fund. When this occurs, the benefiting fund may reimburse the fund providing the goods and services. Examples of such transactions include general government services provided by the General Fund to the Water Resources Fund. Interfund transfers may also result from the exchange of resources between funds to cover operating and capital expenses. For example, the FY 2015-16 budget includes a transfer from the General Fund to the US Cellular Center Fund to support operations. Transfers between funds result in the budgeting of dollars in both participating funds.

## **Departments & Divisions**

Departments are organizational units that provide a major type of public service, such as fire or police protection. Departments are usually subdivided into one or more divisions. For instance, the police department consists of three divisions: administration, criminal investigations, and patrol. Often within each division there are smaller units responsible for performing specific activities. For example, within the police patrol division is the K-9 patrol team and the anti-crime team.

# BUDGET PROCESS

## **Budget Preparation Overview**

Budget preparation affords departments the opportunity to reassess their goals and objectives and the strategies for accomplishing them. Even though the budget may be heard by City Council in May and adopted in June, its preparation begins at least six months prior with projections of City reserves, revenues, and financial capacity. It is against this backdrop that departmental expenditure requests are formulated and reviewed. The FY 2015-16 Budget Calendar is displayed on page 4.

## **Financial Forecasting**

The annual budget process begins with the Budget Office preparing revenue and expenditure projections. These projections serve as the framework for financial decision-making during the City's annual strategic planning and budgeting process. The Budget Office updates the City's general fund forecast annually to adjust for changes in local, state, and national economic conditions and trends; changes in City Council priorities and policies; and other variables that might affect the City's ability to provide needed services and maintain its financial health in future years.

## **City Council Strategic Planning**

Linking important objectives with necessary resources requires a process that identifies key goals at the very beginning of budget preparation. The annual strategic planning process begins with the City Council Retreat in late January, at which time Council identifies its goals and priorities for the upcoming fiscal year. Council's directives set the tone for the development of the annual budget.

## **Departmental Budget Development**

Departments begin developing their budget requests in January. During this phase, departments are encouraged to thoroughly review all programs and services assessing their value and priority to the citizens of Asheville. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested.

Any new programs or services that departments would like funded are submitted to the Budget Office as expansion requests. Expansion requests identify the program's purpose, costs, objectives, and Adopted funding sources. The expansion request also describes how the new or enhanced program is linked with overall Council priorities. Departments are encouraged to prioritize their expansion requests and only submit a limited number of requests each year.

In addition to the budget worksheets and expansion request forms, departments are required to submit the following information to the Budget & Research Office:

- *Low Priority Services.* Each department is required to submit a list of existing programs and services that could be eliminated or reduced. These services can be used as possible "program trade-offs," allowing departments to shift resources from low priority services to new or enhanced services in order to maximize budget target allowances.
- *New or Increased Fees.* Proposals for new or increased user fees are also submitted with the departmental budget request packages. Some or all additional revenue generated from new or enhanced fees may also be used as a way to maximize departmental target allowances.
- *Performance Objectives & Measures.* Performance measures are used to report on the achievements, impacts and outcomes of key City programs. Departments submit an update of their performance objectives and measures during the budget process. Departments report on prior year performance, update current year estimates, and set targets for the upcoming fiscal year. Departments are also encouraged to continually evaluate and refine their performance indicators to ensure that they accurately reflect the organization's mission and priorities.

# BUDGET PROCESS

## **City Manager Review**

Once the Budget Office has completed its technical review of the budget, department directors meet with the City Manager in team sessions to discuss the operating and capital budget requests. Expansion requests are evaluated based on the City's financial capacity and on how they relate to City Council priorities. In most years, monies exist to fund only a small number of expansion requests. Following these senior management sessions, a citywide proposed operating budget is developed.

## **Budget Adoption**

The City of Asheville adopts its annual operating budget in accordance with North Carolina General Statutes (N.C.G.S. 159 - Local Government Budget and Fiscal Control Act). These statutes require that City Council adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The City Manager must submit a balanced budget proposal to the City Council by June 1 of each year, and City Council must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain taxpayer comment before City Council adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

## **Budget Amendments & Revisions**

After the Budget Ordinance is enacted, state law permits City Council to amend it at any time during the fiscal year. Each amendment must continue to adhere to the balanced budget statutory requirements. Amendments may in no way change the property tax levy or alter a taxpayer's liability.

Budget revisions are transfers within a fund which do not change the total fund appropriation. Budget revisions do not require City Council approval.

## **Basis of Budgeting**

As required by the North Carolina Local Government Budget & Fiscal Control Act, the budget is prepared and adopted using the modified accrual basis of accounting. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Those revenues susceptible to accrual include among others: investment earnings, sales tax, and grants-in-aid earned.

During the year, the City's accounting system is maintained on the same basis as the Adopted budget. This enables departmental budgets to be easily monitored via monthly accounting system reports. At year-end, the City's Comprehensive Annual Financial Report (CAFR) is prepared on a basis consistent with "generally accepted accounting principles" (GAAP). This basis of accounting conforms to the way the City prepares its budget, with a couple of notable exceptions. One, certain items that are referred to as revenues and expenditures in the budget are included as other financing sources and uses in the CAFR. In addition, for financial statement presentation, proprietary funds are adjusted to the full accrual basis. The most significant differences between budget and CAFR for proprietary funds are: a) capital outlay & debt service principal payments are recorded as expenditures for budgetary purposes as opposed to adjustments of balance sheet accounts in the CAFR (GAAP); and b) depreciation is recorded as an expense in the CAFR (GAAP) and not recognized for budgetary purposes.

All outstanding encumbrances on the accounting system on June 30 are carried over into the next year's budget. Outstanding encumbrances at year end do not constitute expenditures or liabilities.

## FY 2015-16 BUDGET CALENDAR

Item	Date/Deadline
User fee forms distributed to departments	November 24, 2014
User fee proposals due to Budget Office	December 17, 2014
Budget Office analyzes user fee requests	December, 2014
2015-16 MUNIS Departmental Budget Entry begins	January 2, 2015
Departments complete MUNIS budget entry	January 30, 2015
Budget Request FY 2016 Check- In Reviews with departments	February 2-27, 2015
<b>Finance Committee</b> - User Fee Review	February 24, 2015
<b>City Council</b> - Adoption of FY 2015-16 Fees & Charges	April 14, 2015
City Council Operating Budget Worksession	April 28, 2015
City Council Capital Budget Worksession	May 12, 2015
<b>City Council Formal Meeting</b> - Proposed Budget Presentation - Set Public Hearing	May 26, 2015
<b>City Council Formal Meeting:</b> - Budget Public Hearing	June 09, 2015
<b>City Council Formal Meeting</b> Budget Adoption	June 23, 2015

# FINANCIAL POLICIES

The City of Asheville financial policies establish general guidelines for the fiscal management of the City. These guidelines, influenced by the North Carolina Local Government Budget and Fiscal Control Act and sound financial principles, provide the framework for budgetary and fiscal planning. Operating independently of changing circumstances and conditions, these policies assist the decision-making processes of the City Council and City administration.

## **A. Operating Budget Policy**

1. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriations shall be limited to non-recurring expenditures.
2. Debt proceeds or non-recurring revenues will not be used to finance recurring operating and recurring capital expenditures.
3. The City will integrate performance measures and productivity indicators with the annual budget.
4. The City will prepare a five-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.
5. It is the City's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles.

## **B. Reserves**

1. The City will maintain an undesignated fund balance equal to 15% of the General Fund operating budget, with any amount in excess of 15% being credited to a capital reserve account. This transfer shall be made upon completion of the annual financial audit. The City Council may appropriate this transfer through an amendment to the subsequent year's Budget Ordinance.
2. For all other operating funds, the City shall seek to maintain a minimum fund balance as follows:

Civic Center Fund	16% of the operating budget
Golf Fund	8% of the operating budget
Parking Fund	8% of the operating budget
Stormwater Fund	8% of the operating budget
Transit Fund	8% of the operating budget (portion may be reflected in General Fund)
Water Fund	100% of operating budget/365 days of working capital

## **C. Interfund Transfers**

1. The City will strive to ensure that enterprise funds are financially self sufficient; however, the City may budget a transfer from the General Fund to an enterprise fund to ensure operational and/or capital support for the activities of the fund. If financial performance in the enterprise operating fund is better than budgeted, and the enterprise fund meets the reserve standards set forth in Section B of this policy, then any remaining portion of the interfund transfer shall be returned to the General Fund as part of the annual financial audit process.

# FINANCIAL POLICIES

## **D. Revenue Policy**

1. Revenue estimates shall be set at realistic and attainable levels and shall be monitored periodically.
2. The City will conduct an annual review of specific programs and services which have been identified as potential opportunities for user fees and for which user fees are charged. Where appropriate, user fees will be set at a level sufficient to recover the full costs of the program or service.
3. Regulatory fees shall be set at a level that strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) of providing the service, unless statutory restrictions limit the fee amount.
4. Non-regulatory fees are charged for a wide variety of services with the primary purpose for non-regulatory fees being to: 1) influence the use of the service and 2) increase equity.
5. Non-regulatory fees shall be set at a level that is competitive in the marketplace and strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) except when:
  - free or subsidized service provides a significant public benefit;
  - the City has determined that it should influence personal choice to achieve community-wide public benefits;
  - full cost recovery would result in reduced use of the service or limit access to intended users thereby not achieving community-wide public benefits;
  - the cost of collecting the user fees would be excessively high;
  - ensuring the users pay the fees would require extreme measures.

## **E. Capital Improvement Policy**

1. The City will update and readopt annually a five-year capital improvement program which details each capital project, the estimated cost, description and funding source.
2. The capital improvements plan should be tied to the City's comprehensive growth plan, "City Plan 2025," as well as the City's other adopted Master Plans, to ensure that the capital items requested meet the future growth needs and long-term vision for the City.
3. The City shall appropriate all funds for Capital Projects with a Capital Projects ordinance in accordance with State statutes.
4. Operating expenses for all capital projects will be estimated and accounted for in the Capital Improvements Program and incorporated into the annual operating budget.
5. Capital expenditures included in the CIP as a project will cost at least \$50,000 and have a useful life of at least five years. Equipment purchases are considered operating expenses and will not be included in the CIP.
6. Capital facilities to be financed with bond-indebtedness must adhere to the debt policies of the City including maintenance of adopted debt ratios.

## **F. Accounting Policy**

1. The City will establish and maintain the accounting systems according to the North Carolina Local Budget and Fiscal Control Act, Generally Accepted Accounting Principal (GAAP) and standards established by the Governmental Accounting Standards Board (GASB).

## **FINANCIAL POLICIES**

2. Full disclosure will be provided in the financial statements and bond representations.
3. Financial system will be maintained to monitor expenditures and revenues on a monthly basis.
4. All revenue collections will be consolidated under the Director of Finance and be audited at least annually.
5. The City's Fiscal Procedures Manual will be maintained as a central reference point and handbook for all activities which have a fiscal impact within the City and will serve as the City's authoritative source for fiscal procedures.

### **G. Audit Policy**

1. An annual audit will be performed by an independent public accounting firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required. The City will prepare a Comprehensive Annual Financial Report that will be submitted to the Local Government Commission each year according to the commission's stated deadlines.
2. When obtaining the services of independent auditors, the City of Asheville shall enter into multiyear agreements of not more than five years in duration through a series of single-year contracts as consistent with applicable legal requirements. It is the City of Asheville's policy that the independent auditor be replaced at the end of the five-year engagement to enhance auditor independence unless lack of competition among audit firms fully qualified to perform public-sector audit make mandatory rotation counterproductive. The principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.

### **H. Water Utility Policy**

1. **Setting Water Rates & Charges:** Charges for the water users shall be set at the level to provide sufficient revenues to cover all annual operating and debt services expenditures, to accumulate funds for the acquisition and replacement of capital equipment and facilities, and to finance the long-term Capital Improvement Plan. As the Water Fund relies solely on user fees, the City of Asheville will continue to be guided by cost-of-service principles with regard to rates, fees and charge, and will operate the water system at the lowest rates consistent with the obligation to provide proper and efficient services, now and in the future. Rate increases will be evaluated annually and implemented with a maximum level of predictability, consistency and affordability.
2. **Debt Service Coverage:** Utility debt service coverage ratios shall maintained at a level of 1.25 to 1.5 times coverage or greater (as measured by net revenues, excluding capital contributions, available for debt service divided by total debt service requirements).
3. **Debt to Net Plant:** Utility system debt shall not exceed 70%- 75% (as measured by total long-term debt divided by total net assets).
4. **Cash Financing of Capital:** Annual revenues and cash reserves shall provide not less than 30% of CIP funding.

# FINANCIAL POLICIES

5. Service Affordability: The most commonly used and most cited measure of water service affordability of “percent MHI” – that is, calculating what a year’s worth of water bills for an average level of consumption (e.g. 5000 gallons/month) is compared to the median household income (MHI) in the community served by the utility. This indicator is easy to calculate by simply using the calculated bill amount and the U.S. Census Bureau’s median household income data from their latest 5-year American Community Survey estimated. The City of Asheville’s percent MHI. The average annual residential bill divided by real median household income, shall be  $\leq 1.5\%$ .

## **I. Internal Services Fund Policy**

1. Health Fund
  - a. Health Claims Budget And Rate Setting

Health claims shall be budgeted to adequately fund expenses including trend, administrative costs, stop-loss premiums and risk corridor. Expected claims expenses shall be projected based on annual actual mature claims experience adjusted for trend, enrollment and plan design and network changes.

Trend is defined as year to year medical inflations influenced by utilization, advances in medical technology and increasing cost of medical services.

Risk corridor, calculated at 5% of expected claims expenses is defined as the difference between expected claims and the aggregate potential liability on group claims to be funded from current rate resources as opposed of reserves. The amount over the risk corridor represents the risk the employer is accepting in the self-funded plan which, if claims exceeded the aggregate potential liability funded from current rate resources, would be paid from reserves.

- b. Health Fund Reserve Requirement

The health fund shall maintain reserves designed to offset normal variances in claims cost from year to year, unforeseen catastrophic claims beyond and reinsurance, large than expected medical inflation trends, incurred but not reported claims liability and the impact of future health care legislative mandates.

1. 100% of the incurred but not reported claims liability with the lag factor based on the prior 12-month average, and
    2. 100% of reported and not yet paid claims computed as two weeks of annual claims benefits costs, and
    3. 30% of the aggregate of 1 and 2 above

Should the health fund fall to meet the required reserve level, the amount needed to restore the fund to the required reserve level shall be funded in subsequent year’s rate structure and recovered over a period of not more than three years.

Should the health fund exceed the required reserve level, the amount in excess of the required reserve level shall be credited to the subsequent year’s employer health care contribution.



# FINANCIAL POLICIES

## **J. Debt Management**

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
2. The general obligation debt of the City of Asheville will not exceed 8% of the assessed valuation of the taxable property of the City.
3. Total debt service on tax-supported debt of the City will not exceed 15% of total general government operating revenue.
4. Payout of aggregate principal outstanding shall be no less than 50% repaid within 10 years.
5. The City will maintain its financial condition so as to maintain a minimum AA bond rating.
6. The City's Water Resources Utility will maintain its financial condition so as to maintain a AA bond rating.
7. The City's Debt Policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.

It is the policy of the City of Asheville to comply with all applicable federal tax rules related to its tax-exempt debt issuances. The City's Chief Financial Officer, and his or her designee, has primary responsibility for ensuring that the City's outstanding tax-exempt debt issuances are, and remain, in compliance with federal tax law. The Chief's Financial Officer will maintain policies and procedures to ensure compliance with such rules. The City's Finance Department will consult with other departments within the City, as well as, third-party professionals (e.g. Bond, Counsel and financial advisor), as necessary, to ensure compliance with all applicable federal tax documentation requirements, yield restriction limitation, arbitrage rebate requirements, third-party use limitations and recordkeeping requirements.

## **Investment Policy**

The City of Asheville will demonstrate good stewardship of public funds through an Investment Policy and Program that is transparent, fiscally conservative, aligned with City Council objectives and in compliance with all State and local requirements.

## **Governance**

The City of Asheville's Investment Policy shall be governed by the North Carolina Budget and Fiscal Control Act, North Carolina General Statute (NCGS) §159, the policies of the Local Government Commission (LGC), and the direction of the City Council.

## **Purpose and Scope**

The City of Asheville's Investment Policy applies to the investment activities of the City of Asheville. All financial assets of the City shall be administered in accordance with the provisions of the Policy. In addition to the Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) shall be governed and controlled by their governing ordinances and by all regulations and rulings applicable to the issuance of such obligations.

# FINANCIAL POLICIES

## **Investment Policy (Cont)**

### **Objectives**

The objectives of the City's investment activity are, in order of importance, safety, liquidity and yield.

*Safety.* The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Funds shall be invested according to NCGS §159-30-33. These statutes provide the authority to invest idle funds and provide the mandatory framework for cash management, reporting and investment decisions. The statutes outline the investment options open to local governments with an emphasis on preservation of capital and mitigation of risk. The City will invest in those institutions collateralized under the Pooling Method, as prescribed under the North Carolina Administrative Code, Title 20, Chapter 7 (20 NCAC 7). 20 NCAC 7 allows depositories to use an escrow account established with the State Treasurer to secure the deposits of all units of local governments.

*Liquidity.* The City's investment portfolio should remain sufficiently liquid to enable the City to meet operating requirements that can be reasonably anticipated. Liquidity shall be achieved by maintaining cash equivalent investment balances, matching investment maturities with estimated cash flow requirements and by investing in securities with active secondary markets. Funds held for future capital projects shall be invested in anticipation of projected cash flow requirements.

*Yield.* The City's operating portfolio shall be designed with the objective of achieving a market rate of return through all budgetary, economic and interest rate cycles. The investment program shall seek to augment returns above this threshold consistent with prudent investment principles. This objective is subject to investment risk constraints and liquidity needs as previously stated.

### **Responsibility and Control**

NCGS §159-25(a)6 delegates management responsibility for the investment program to the City's Finance Officer (FO). The FO shall establish and maintain procedures for the operation of the investment program which are consistent with this policy, State statute, the policies of the LGC, and the strategic plan of the City Council of the City of Asheville. The FO may further delegate authority to persons responsible for investment activities and transactions and the FO will establish and maintain a system of controls to regulate the activities of those persons.

In the absence of a FO and those to which he or she has delegated investment authority, the City Manager or his or her designee is authorized to execute investment activities on behalf of the City of Asheville.

### **Authorized Investments**

The City of Asheville's management of cash and investments must comply with the North Carolina Budget and Fiscal Control Act (NCGS §159) and the policies of the LGC. Funds of the City of Asheville may be invested in the instruments described below, all of which are authorized by the Act and the LGC.

- Obligations of the United States
- Obligations of US Government Agencies, including, but not limited to:
  - Federal National Mortgage Association ("FNMA")
  - Federal Home Loan Bank ("FHLB")
  - Federal Home Loan Mortgage Corporation ("FHLMC")
  - Federal Farm Credit Bank ("FFCB")
- Prime quality commercial paper
- Bank certificates of deposit (CDs)
- Bank deposit accounts

# FINANCIAL POLICIES

## **Investment Policy (Cont)**

According to the direction of the City Council, the City shall ensure that financial institutions meeting the following criteria receive full consideration for cash management and investment decision making for bank certificates of deposit:

- a. Institution is collateralized under the Pooling Method (see *Safety* above)
- b. Institution demonstrates a pattern of community reinvestment aligned with City Council's Strategic Plan
- c. Institution has physical location(s) within the City of Asheville city limits
- d. Institution provides employment within the city limits

Changes to the governing North Carolina General Statutes and/or the policies of the Local Government Commission will be considered automatically adopted by the City of Asheville as part of this Investment Policy. Any such changes will be included as revisions of or amendments to the policy; however, their implementation by the City is not predicated on inclusion in this document.

