

Village of Granville, Ohio

Financial Policies

Introduction

This document outlines the financial policies for the Village of Granville, Ohio. Although the Village has a sound financial framework, these policies were adopted to provide guidance for future financial decisions, to link long-term financial planning with day-to-day operations, and to help ensure that the Village can maintain its stable financial position.

Objectives

To maintain the stable financial position of the Village through sound, conservative financial decision making.

To maintain adequate fund reserves so that the Village and the services that it provides are protected from possible crisis during emergencies or economic downturns.

To maintain enterprise funds on a self-sustaining, user-fee basis so that the enterprise funds are not a drain on the General Fund or tax revenues.

To provide a framework for the preparation and adoption of the annual operating budget.

To provide a framework for the preparation and adoption of a five-year capital improvement plan.

To establish general priorities for the funding of competing capital projects.

To establish policies for the investment of the Village's surplus funds.

To ensure the Council's adopted policies are implemented in an efficient and effective manner.

Maintenance of Fund Reserves

The Village will maintain an unencumbered fund balance in specified operating and capital funds. These funds will be used to avoid cash-flow interruptions, generate interest income, minimize the need for short-term borrowing, provide funding flexibility for unanticipated needs and opportunities, and sustain operations during unanticipated emergencies and disasters. The level of reserve to be maintained is specified below, but may be adjusted periodically based on anticipated future funding needs, historical trends, growth patterns, the economy, and contractual obligations, including bond covenants.

General Fund (A1)

The minimum year-end, unencumbered balance for the General Fund will be \$500,000 or 15% of the total annual General Fund expenditures, whichever is greater.

Street Fund (B-1)

The year-end, unencumbered balance for the Street Fund will be \$100,000 or greater.

Sewer Replacement and Improvement Fund (C-3)

The year-end, unencumbered balance for the Sewer Replacement and Improvement Fund will be \$150,000 or greater.

Water Fund (E-1)

The year-end, unencumbered balance for the Water Fund will be \$100,000 or 15% of the total annual Water Fund expenditures, whichever is greater.

Sewer Fund (E-2)

The year-end, unencumbered balance for the Sewer Fund will be \$100,000 or 15% of the total annual Sewer Fund expenditures, whichever is greater.

Water Capital Improvements Fund (E-91)

The year-end, unencumbered balance for the Water Capital Improvements Fund will be \$150,000 or greater.

In the event that any of the unencumbered fund balances are used to provide for the temporary funding of unforeseen emergency needs, thereby causing a fund balance to dip below the stated threshold, the Village Council and the Village Staff will develop a plan to restore the fund balance to its minimum threshold level within two calendar years following the calendar year in which the event occurred. The plan to restore the fund balance shall be included and highlighted in the Village's Five Year Plan.

Operating Budget Policy

The budget is one of the most important documents the Village prepares because it identifies the programs and services to be provided and how those programs and services are to be financed. The annual budget will be prepared and administered in accordance with the guidelines provided in this policy.

Annual operating budgets will be balanced (estimated expenditures will be within the estimated revenues and appropriated fund balances).

Debt or bond financing will not be used to finance current operations.

The budget priorities will be aligned with the Village Council's annual goals and objectives.

The draft budget will include a five-year projection (beyond the proposed budget year) of revenues and expenditures. The five-year projection will include adjustments for anticipated growth, the expansion or contraction of Village programs and services, inflationary increases in operating expenses, and allowances for the operational costs of new capital items.

Increased costs that are related to changes in priorities and/or growth in a particular area should be addressed through substitution or reallocation where feasible in order to minimize the demand for additional resources.

Opportunities for shared services and resources across departments and organizational boundaries should be aggressively pursued where feasible.

The Village will utilize a risk management program and a comprehensive safety program to provide for protection against injuries and losses and to minimize its exposure to liability.

Budget Process

Department heads will submit draft budget requests to the Finance Director and Village Manager by July 1 of each calendar year.

The Village Manager and the Finance Director will submit a recommendation for annual employee salary and fringe benefit adjustments to the Village Council Finance Committee by August 1 of each calendar year. By September 15, the Finance Committee will provide guidance to the Manager and Finance Director on the percentage of employee wage and benefit adjustments to be included in the draft budget that is to be prepared for the Village Council.

The Finance Director and the Village Manager will submit a draft budget document to the Finance Committee, with copies to the entire Village Council, by October 1. The draft budget will include the following:

- a. Actual revenue figures for the two immediately prior budget years, estimated figures for the current budget year, and proposed figures for the new budget year. Revenue estimates shall be by line item.
- b. Actual expenditure figures for the two immediately prior budget years, estimated figures for the current budget year, and proposed figures for the new budget year. Expenditure estimates shall be by line item.
- c. A detailed listing of capital improvement projects.

- d. Debt service requirements for the proposed budget year along with an amortization schedule for each debt obligation.
- e. Proposed personnel staffing levels.
- f. Any additional information, data, or analysis that would be supportive of the budget proposal.

The Finance Committee will complete its review of the draft budget and will recommend its modifications by October 15. The Finance Director and the Village Manager will make the adjustments to the draft budget as recommended by the Finance Committee and will prepare a final draft of the budget to be submitted to the full Village Council by November 1.

The budget ordinance will be presented to the Council for introduction at the second meeting in November; and the budget ordinance will be scheduled for a public hearing at the first Council meeting in December. The Council will adopt the annual budget on or before December 31 for the next calendar year.

The Finance Director and Village Manager shall administer the budget in accordance with the appropriation ordinance, other Village policies, and state law. Monthly financial reports shall be included in the Manager's Monthly Report to the Council.

Revenue Policy

The Village collects revenues, primarily from a local income tax, local property taxes, user fees, an inheritance tax, state revenue pass-throughs, fines and court costs, fees and permits, and interest on investments. Revenue management includes, within its focus, an ongoing process for reviewing and analyzing the relative strength and stability of each revenue source. Revenue estimates will be conservative and the projections will be based on historical trends, growth patterns, and the economy.

The Village will project revenues for five years beyond the current budget year and will update the projections annually.

The Village will monitor all local taxes and user fees to ensure that they are equitably administered and that collections are timely and accurate.

Periodically, the Village will recalculate the full costs of providing services in order to provide a basis for setting the associated service charge or fee. The full cost of providing a good or service may include direct and indirect costs, including operations and maintenance, overhead, and charges for use of capital facilities. It is recognized that policy objectives may occasionally result in user fee levels that recover only a portion of service costs.

To meet these objectives, the Village will observe the following guidelines:

a. Local Income Tax

The local income tax will be maintained as the primary source of general fund revenues for the Village. (In 2007, nearly 70% of the general fund revenues were derived from the income tax.)

The income tax will provide funds for general municipal operations, maintenance, new equipment, facility improvements, and capital improvements. The local income tax will be levied on qualifying wages, commissions, other compensation, and other taxable income earned by residents of the Village or earned by non-residents for work done or services performed within the Village. It will also be levied on business net profits and other taxable income as outlined in the Granville Code of Ordinances.

The annual tax rate is currently one-and-one-half percent (1.5%). A resident taxpayer who pays income tax to another municipality for work performed or services rendered outside of the Village is entitled to a credit against the Village's income tax. The maximum credit is fifty percent (50%) of the amount of tax imposed by the Village or the actual amount of income tax paid to another municipality, whichever is less.

b. User Fees

The Village will consider user fees, in lieu of other local taxes, where benefiting individuals can be easily identified and where the fee charge could be directly related to the level of service provided or consumed. This objective is consistent with the Village's goal that the expansion of services, where feasible, should be financed by those benefiting from the service without placing an extra burden on other residents who do not use the service.

To the extent possible, user charges for water and sewer services should be sufficient to finance all operating, capital, and debt service costs for said services, as well as provide the unencumbered balances specified above.

Planning, zoning, and code enforcement activities will be funded through user charges in the form of zoning permits, sign permits, and plan review fees. These fees will contribute to the operating costs of those activities.

User fees should be reviewed annually.

c. Utility Rates

Utility rates are a form of user fee and should be subject to the policies described in the preceding section.

The Village will continue to maintain all enterprise funds on a self-sustaining user fee basis. Utility rates will be reviewed annually considering net revenue requirements, realistic sales forecasts, contractual obligations including bond covenants, and utility conservation goals. Revenue requirements may include funds programmed for rate stabilization, utility capital projects and reimbursement of indirect costs to the General Fund.

d. Grant Funding

Grant funding may be used for a variety of purposes including (1) covering current Village operations; (2) funding a capital project identified in the Capital Improvement Plan; (3) assisting the Village in meeting regulatory requirements; and (4) providing funding opportunities to meet the mission and goals of the Village. The Staff will pursue opportunities for grant funding. Application will be made after a grant is evaluated for consistency with Council goals and compatibility with the Village's programs and objectives.

e. Other Revenue

All other revenue will be programmed through the annual budget process to meet the Village's goals and objectives.

Expenditure Policy

Current operating expenditures will not exceed current operating revenues plus any appropriated fund balance.

The Village will project expenditures for five years beyond the current budget year and will update the projections annually.

As provided under the Fund Reserve Policy, the Village will maintain an unencumbered fund balance in operating funds. The fund balances will be used to avoid cash-flow interruptions, generate interest income, eliminate the need for short-term borrowing, provide funding flexibility for unanticipated needs and opportunities, and sustain operations during unanticipated emergencies and disasters.

The Village Manager, Finance Director, and Department Heads are responsible for monitoring expenditures and ensuring that expenditures do not exceed appropriated amounts.

No appropriations of the proceeds of a debt instrument will be made except for the purpose for which such debt instrument was issued.

Donations will only be spent in accordance with the conditions under which the donations were provided.

To meet these objectives, the Village will observe the following guidelines:

a. Budget Management

Expenditure budgets will be monitored by the Village Manager, Finance Director, and Department Heads throughout the budget year. Budgeted funds will only be spent for the categorical purposes for which they were intended.

b. Continuing Contracts

For continuing contracts, funds will be appropriated in the annual budget ordinance to meet current year obligations arising under the contract.

c. Payroll Management

Payroll will be administered in accordance with the requirements of the Fair Labor Standards Act and the Village's personnel policies.

d. Interfund Transfers

Transfers from the General Fund may be made to any other fund. However, enterprise funds are intended to be self-sustaining and transfers from the General Fund should not be used to cover the operating costs of the enterprise funds.

Interfund transfers are allowed for the allocation of direct or indirect costs of services rendered by one fund to the benefit of another.

e. Non-Profit Support

Subject to the availability of funds and after all other operational obligations are projected to be fulfilled, it is the Village's policy to consider requests for funding from non-profit organizations that provide an overall benefit to the Granville community. Requests will normally be considered during the annual budget process.

Prior to the awarding of any such funding, the Village may review the financial position of the organization requesting the funds to determine the entity's ability to carry out the intended purposes for which the Village funding would be provided. An entity that is designated to receive Village funds may be required to enter into a Memorandum of Understanding that would outline the amount of funds to be provided, the timing for the disbursement of the funds, the relative responsibilities of the recipient agency and the Village, and the reporting that will be required, including a certified financial statement or an audit if appropriate, to document how the funds were spent as well as the program accomplishments.

Capital Improvement Program

The Village's long-term assets are primarily in the form of infrastructure, physical assets, or capital plant, such as streets, buildings, and equipment. Sound infrastructure is an important aspect of the strength, quality, and vitality of the community.

Annually, the Village will update and re-adopt a five-year capital improvement program that will provide a description of each capital project, the estimated cost, and the funding source. The estimated costs will be adjusted annually for inflation and the assumed rate of inflation will be disclosed in the capital budget report. When new project needs arise during a current budget year, a budget amendment that includes both the funding source and the project appropriations will be utilized to provide formal authority to proceed with the new project.

The Village will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.

Restrictive revenue sources will be utilized whenever possible or feasible for capital improvements before unrestricted sources are used.

The capital improvement plan should be reflective of the Village's strategic goals, the current Comprehensive Plan, and facility master plans to ensure that the funded capital projects are consistent with the identified needs of the Village.

Operating expenditures will be used to subsidize the Capital Improvement Plan by covering salaries and operating costs.

Plan Inclusion

Any item included in the Capital Improvement Plan will normally meet the following minimum standards:

- a. The Capital Improvement Budget and Plan will generally include those capital assets or projects with a value of more than \$10,000 and a useful life of over three (3) years.

Priorities

Potential projects for inclusion in the Capital Improvement Program will be evaluated on the following factors (listed generally in the order of importance):

- a. Health and Safety. The project will address issues of health or safety.
- b. Recognizable Value. The project, when completed, will have recognizable value to the residents and community.
- c. Previous Capital Investment. The project will preserve, enhance, or expand a previous capital investment made by the Village.

d. Reduce Costs or Increase Revenues. The project will reduce future operating costs or increase future operating revenues.

e. Efficiency. The project will significantly improve the efficiency of existing services.

f. Alternative Funding Sources. When current revenues or resources are available for capital improvement projects, priority may be given to those projects or equipment whose nature makes them comparatively more difficult to finance with bonds or other long-term financing.

Sources of Financing

The Village acknowledges pay-as-you-go financing as a significant capital financing source, but will ultimately determine the most appropriate financing structure for each capital project on an individual basis after examining all relevant factors of the project.

The following are the sources of financing that are generally available for capital improvement projects or the purchase of capital equipment:

a. Pay-As-You-Go. Pay-as-you-go purchases are often financed by savings from annual appropriations. Fund balances in excess of the minimum amounts specified elsewhere in these guidelines for operating and capital funds may be used as a source of pay-as-you-go financing for capital expenditures.

b. Capital Reserve Funds. The Village also establishes Capital Reserve Funds in which funds are accumulated for capital improvement projects or the purchase of capital equipment. The Capital Reserve Funds may receive revenue from the General Fund, other operating funds, user fees, impact fees, or other designated sources.

c. Grant Financing. Some capital projects or improvements may be partially or wholly financed through grants from the Federal or State governments.

d. Debt Financing. Capital equipment or capital projects may be financed in whole or in part by the issuance of capital bonds or capital leases. Assets with a value in excess of \$100,000 and a useful life in excess of five years are better candidates for bond or capital lease financing.

e. Special Assessments. Under the Ohio Revised Code, abutting property owners who benefit from specified public improvements may be assessed for some portion of the cost of those improvements. Typical improvements are streets, sidewalks, sewers, water lines, and street lights.

Special assessments are limited to benefits conferred upon the property and may not exceed, during a five year period, one-third of the actual value of the property. At minimum, the Village must pay at least two percent of the cost of the project plus the cost of intersections.

f. Tax Increment Financing. Tax Increment Financing (often referred to as a “TIF”) is a statutory procedure authorized by the Ohio Revised Code by which private improvements to particular parcels are declared to serve a public purpose (such as increasing the tax base). Because of the declared public benefit, some or all of the real property taxes that would normally be assessed against the value of those private improvements are abated and the property owner is required to make semi-annual payments to the Village in an amount equal to those abated taxes. (Those payments are typically referred to as “payments in lieu of taxes” or “PILOTs”.) Those PILOTs can be used to pay for any public capital improvements that have been made to serve the project.

Debt Management Policy

Debt may be used to finance large projects that provide value to current and future citizens. Bond financing will be confined to projects which could not otherwise be financed from current revenues. Generally, debt financing will be limited to large construction projects and large land or building purchases.

The term of any bond or lease obligation issue will not exceed the useful life of the capital project, facility, or equipment for which the borrowing is intended.

The general obligation debt of the Village of Granville will not exceed the State of Ohio statutory limit. Net indebtedness incurred without a vote of the electors shall never exceed five and one-half percent (5½ percent) of the total value of property in the Village as listed on the assessment rolls for property taxation. Total net indebtedness shall never exceed ten and one-half percent (10½ percent) of the total value of property in the Village.

Total debt service on tax-supported debt of the Village will not exceed 10% of the total general government operating revenues.

The Village will seek the best financing types, debt structure and time frame for each financing need based on the project needs, timing, tax or rate payer equity, and lowest interest cost.

The Village will maintain its solid financial condition to assure Village residents that the Village is well managed and financially sound, and to maximize its bond rating and minimize the Village’s interest expenses.

Cash Management

Cash management is the practice of safeguarding and maximizing the income earned on cash assets. Cash, liquidity, and investment management activities shall be conducted prudently. The Village shall maintain adequate management procedures, controls, and policies for the Village’s liquid assets.

Receipts

Cash receipts will be processed as expeditiously as is reasonably possible to provide secure handling of incoming cash and to move these monies into interest earning accounts and investments.

As far as practicable, all incoming funds will be deposited daily. Deposits will be made in such a manner as to receive credit for that day's interest.

Cash Disbursements

The Village's objective is to retain moneys for investment for the longest appropriate period of time. Disbursements will be made shortly in advance of or on the agreed-upon contractual date of payment unless earlier payment provides a greater economic benefit to the Village.

For all Village checks, two signatures will be required. Normally, the checks will be signed by the Finance Director and the Village Manager.

Cash Management and Investment Policy

Subject to review by the Village Manager, the Finance Director shall determine the amount of public funds that will be necessary to provide an adequate cash flow to cover anticipated warrants and checks and other expenditure obligations as well as to provide a reasonable balance to cover unanticipated expenditures or emergencies. Those funds shall be deposited in active deposits in eligible depositories as defined in Chapter 147 of the Granville Code of Ordinances.

In accordance with Section 147.04 of the Granville Code, the Director of Finance shall require the institution designated as the depository for active funds to deposit or pledge eligible securities to cover the amount of the public funds that are in excess of the insurance provided by the Federal Deposit Insurance Corporation or by any other agency or instrumentality of the Federal government or the State of Ohio. The Director of Finance may require additional eligible securities to be deposited to provide for any depreciation that may occur in the market value of any of the securities so deposited. An institution designated as a depository may, by written notice to the Finance Director, designate a qualified trustee and deposit the eligible securities for safekeeping by that trustee.

All public funds not deposited in active deposits or kept by the Director of Finance as a cash reserve shall be invested as prescribed in Section 147.05 of the Granville Code. The Director of Finance shall be responsible for the safekeeping of all securities, obligations, or certificates of deposit acquired by him or her in accordance with that section.

Banking Relations

The Village Manager shall, by letter filed with the Clerk of Council, designate one or more eligible depositories for the Village's active deposits. In making such a designation, the Manager shall consider the following:

- a. The convenience provided by the location of the depository's offices;
- b. The rate or rates of interest, if any, that the depository will pay on the active deposits;
- c. The service charges, if any, that will be made for the services of the depository; and
- d. Any other terms or conditions with respect to the depository's acceptance of the active deposits.

Any such designation shall be made in accordance with Section 147.03 of the Granville Code and shall, at the Manager's discretion, be for a period of not less than six months or more than two years.

Accounting and /Financial Reporting Policy

The Finance Director will establish and maintain an accounting system that conforms to the guidelines established by the Auditor of State.

Financial systems will be maintained to monitor expenditures and revenues, with reporting on a monthly basis.

Records and reporting will be in accordance with Generally Accepted Accounting Principles.

Audits of the Village's financial records by an independent public accounting firm will be done in accordance with the schedule established by the Auditor of State. The independent auditing firm will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required.

Full disclosure will be provided in the financial statements, regulatory reports, and bond representations.