

**RESOLUTION NO. 1895
AS AMENDED ON MARCH 8, 2010**

A RESOLUTION OF THE COUNCIL OF THE CITY OF SALISBURY,
MARYLAND APPROVING A FINANCIAL POLICY FOR THE CITY

WHEREAS, Mayor and City Council of the City of Salisbury are interested in ensuring that the City's finances are maintained in a professional and prudent manner; and

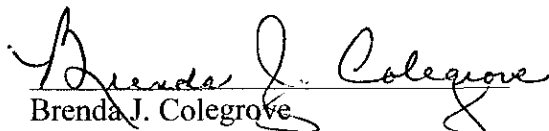
WHEREAS, the Mayor and City Council believe that in order to ensure that this goal is met it is essential that a set of policies be established to provide guidance on the financial affairs of the City; and

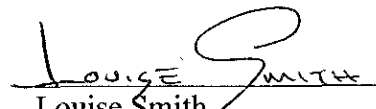
WHEREAS, the attached Financial Policy has been developed by the staff and reviewed by the Mayor and City Council; and

WHEREAS, the Mayor and City Council believe that the attached Financial Policy will provide the necessary guidance to ensure the professional and prudent maintenance of the City's finances;

NOW, THEREFORE, BE IT RESOLVED, that the Council of the City of Salisbury, Maryland does hereby adopt the attached financial policy, for the City.

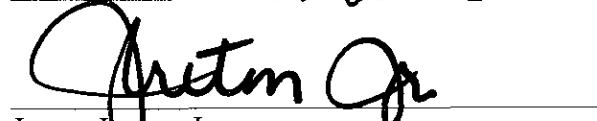
THE ABOVE RESOLUTION was introduced and duly passed at a meeting of the Council of the City of Salisbury, Maryland held on March 8, 2010, and is to become effective immediately.


Brenda J. Colegrove
City Clerk


Louise Smith
Council President

APPROVED BY ME THIS

12 day of March, 2010


James Ikeron, Jr.
Mayor

City of Salisbury Financial Policies Adopted March 8, 2010

Debt Policy

The City has adopted a debt policy. A copy of which is included as an attachment to this policy.

Capital Improvement Plan

- The City Administrator shall develop and maintain a projection of capital improvement projects (Capital Improvement Plan) for the next five years based on the known and anticipated needs of the City, and on Mayor/Council-approved projects. The Capital Improvement Plan (CIP) should be tied to projected revenue and expenditure constraints. Future planning should consider periods of revenue surplus and shortfall and adjust future programs accordingly. CIP includes long-term maintenance and rehabilitation requirements for proposed projects. Each fiscal year, the City Administrator will update the CIP to include current information and submit to the Mayor and City Council.
- The City's capital plan will take into account the borrowing limitation of the City, as well as the ability of the City to finance the debt.
- The CIP process shall include a financial analysis and narrative of the long-term maintenance and rehabilitation requirements for proposed projects.

Capital Improvement Funding

- Within the limitation of existing law, various funding sources may be utilized for capital improvements. Capital projects shall be dictated by the nature of funding available except to the extent that the projects meet an initial test of being required to achieve City goals and to the extent that projects must be placed in priority dictated by the nature of the funds available.
- The City shall actively pursue outside funding sources for all projects for the CIP.

Capital Improvement Financing

- The City shall maintain an ongoing monitoring system of the various outstanding bond indebtedness issues and utilize this reporting system as a criterion for the administration of the City's outstanding indebtedness.

Use of Debt Financing

- Debt financing shall generally be limited to one-time Capital Improvement Projects and only under the following criteria:
 - When the project's useful life will exceed the term of the financing; and
 - When the project will benefit the citizens.

Leasing

- Lease purchases shall be considered only when the useful life of the item is equal to or greater than the length of the lease. If the item may become technologically obsolete or is likely to require major repair during the lease purchase period, then the item should be either purchased or placed on a term operation lease.

General Fund Budgeting

- The basic format of the budget shall identify programs within organizational structures. Programs are defined as specific services provided to the public, other departments or other organizations. All assumptions, transfers, and other relevant budget data shall be clearly stated.
- The City shall operate under an annual balanced budget ordinance in which the sum of net revenues and appropriated fund balance is equal to appropriations.
- The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing expenditures, accruing future years' revenues, or rolling over short-term debt.
- Where possible, the budget and subsequent status reports will integrate performance measurements and productivity indicators.
- In instances where specific activities /purchases are authorized by the Mayor and City Council in a certain fiscal year and remain incomplete and/or unexpended, revenues and/or fund balance may be carried forward, at Mayor and City Council's discretion, into the next fiscal year to support such activities/purchases.
- Provisions will be made for adequate maintenance of the capital plant and equipment and for their orderly rehabilitation and replacement, within available revenue and budgetary limits.
- To show true costs, expenditures (including internal costs) will be allocated directly to the appropriate Fund.
- Budgetary and accounting procedures will conform to Generally Accepted Accounting Principles (GAAP) for governmental agencies.

Revenues

- The city will conduct an annual review of specific programs and services which have been identified as potential candidates for user fees. Where appropriate, user fees will be set at a level sufficient to recover the full costs of the program or service.
- The City's enterprise operations shall set their enterprise fees at a level sufficient to recover the full costs of enterprise operations.

Reporting Responsibilities

- The Director of Internal Services will be held accountable for assuring that departmental expenditures stay within the department's budget appropriation, and will notify the City Administrator immediately of the necessity to amend the budget in the event an over expenditure is anticipated.
- The Director of Internal Services will submit quarterly budgetary reports to the City Administrator for forwarding to the mayor and City Council comparing actual revenues and expenditures to budget estimates.

Fund Balances/Reserves

- The City shall endeavor to maintain an undesignated fund balance equal to 10% of the following Fiscal Year's General Fund Adopted Budget, with any amount in excess of 10% being credited to a capital project account. These funds are available to be utilized to pay for capital projects with priority being given to those projects that would otherwise be funded through the issuance of debt.
- If, at the end of a fiscal year, the undesignated fund balance falls below 10%, then the City shall develop a plan to rebuild the balance. The plan shall include specific time frames not to exceed five (5) years and the amount for each year.
- After adoption of the budget, allocation of funds from the undesignated fund balance requires review and approval of the City Council. As a general rule, these monies shall only be used to prevent/alleviate dangerous conditions, to prevent catastrophic disruptions in City services and/or to provide funding for necessary expenditures that were not anticipated at the time that the budget was adopted.
- The original adopted General Fund Budget shall not utilize the undesignated fund balance (reserve) to fund non-capital expenditures or general operating expenses in excess of 1% of that year's original adopted General Fund Budget.
- Capital items funded in the adopted budget utilizing the undesignated fund balance cannot be cut without a corresponding addition back to the undesignated fund balance, as to prohibit the undesignated fund balance being utilized for general operating expenditures, without a budget amendment.

Auditing

- The City shall have its accounts independently audited at the close of each fiscal year by a certified public accountant.

Equipment Replacement Criteria

- Vehicle replacement will be evaluated using the average of the past two years of maintenance for a particular vehicle compared to the expected replacement cost for the same vehicle.
- A vehicle replacement schedule will be developed and updated annually based on the current condition of each vehicle and the expected life of each vehicle category.

- Any vehicle that has an average past two years' maintenance greater than or equal to 80% of the expected replacement cost will be targeted for replacement.
- Any vehicle not meeting the 80% threshold will require written justification for replacement, including such reasons as: vehicle obsolescence; parts unavailability; change in vehicle function rendering it unproductive; serious vehicle accident, and low salvage value.

Investments

- The City shall maintain an available funds balance of less than \$1 million to ensure that sufficient funds are available to cover all reasonably anticipated transactions. All other idle funds will be invested daily, except when large monetary transactions are anticipated and a larger balance is necessary.
- All City funds (excluding any investments related to Other Post Employment Benefits obligations) will be maintained in secured bank accounts or invested with the Maryland Local Government Investment Pool.

Water and Sewer Fund Financial Forecast


- Annually, the City will prepare a five-year financial forecast for the water and sewer fund.
- The target amount for surplus balance in the water and sewer fund will be calculated as the total of 25% of Operating and maintenance budgeted, 100% of the current year's debt service and 100% of the capital expenditures funded through current operations.

INTER

OFFICE

MEMO

Office of the Mayor

To: City Council
From: John R. Pick 
Subject: Financial Policy
Date: February 26, 2010

Attached is a copy of the proposed Financial Policy, which has been revised to reflect the discussion at the February 18, 2010 work session. This Financial Policy, which includes the City's new Debt Policy as an attachment, provides guidance on a number of related financial matters, including the Capital Improvement Plan; the use of debt financing; fund balances; equipment replacement; and investments.

If you have any questions, please let me know.

cc: Mayor Ireton
Lore' Chambers
Pam Oland
Brenda Colegrove