

Village Council Agenda Item
Village of Yellow Springs, Ohio

Agenda Title:	Consideration of Resolution 2006-__ Adopting General Budget Policies
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Presenter:	Eric C. Swansen, Village Manager
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Problem/Issue Statement

The Village lacks a comprehensive set of financial policies to guide budget decisions in the future.

Financial Impact

Failure to implement sound budget practices can result in providing services in an unsustainable manner, forcing costs on future generations in excess of what is prudent. Sound budget practices also improve the ability of the Village to obtain credit, issue debt and provide effective services.

Recommendation

Staff recommends adoption of Resolution 2006-__ Adopting General Budget Policies

Introduction

Council received a discussion draft of these policies at the May 6th work session that established the process for developing the 2007 budget. Council received a presentation at the September 6th Council meeting, with interest in having the policies returned to Council as a resolution at this meeting.

Background

The Village currently lacks a set of general policies to guide staff in making budget decisions. The Government Finance Officers Association (GFOA) has adopted the recommended practices of the National Advisory Council on State and Local Budgeting (NACSLB).

NACSLB has developed a comprehensive set of recommended budget practices. The recommendations have been endorsed by a number of key governmental associations, by academia and by labor groups associated with state and local governments. These practices and the associated framework outline a budget process that encompasses the broad scope of governmental planning and decision-making with regard to the use of resources. This work is recognized as one of the most important advances in governmental finance in decades. The Government Finance Officers Association (GFOA) has adopted a recommended practice endorsing the NACSLB practices and the associated framework. However, the policies included in

this Recommended Practice are those considered fundamental to the budget process and relevant to the broadest number of jurisdictions.

The work of the NACSLB provides a framework for describing the overall budget process. The framework is organized around the four principles of the budget process:

1. Establish Broad Goals to Guide Government Decision Making
 - Assess Community Needs, Priorities, Challenges and Opportunities
 - Identify Opportunities and Challenges for Government Services, Capital Assets, and Management
 - Develop and Disseminate Broad Goals
2. Develop Approaches to Achieve Goals
 - Adopt Financial Policies
 - Develop Programmatic, Operating and Capital Policies and Plans
 - Develop Program and Services Consistent with Policies and Plans
 - Develop Management Strategies
3. Develop a Budget Consistent with Approaches to Achieve Goals
 - Develop a process for preparing and adopting a budget
 - Develop and evaluate financial options
 - Make choices necessary to adopt budget
4. Evaluate Performance and Make Adjustments
 - Monitor, Measure, and Evaluate Performance

While GFOA and NACSLB recommendations are not mandated, they do carry considerable weight with regards to obtaining credit and issuing debt in the future. Considering that the Village will likely need to issue debt to make critical infrastructure improvements, adopting these recommendations will certainly help.

Given limited staff resources, pressing budgetary constraints, and critical timelines established in adopting this year's budget in advance of the electorate's decision on the levy, it is impossible to follow all the recommended practices at this time. However, the recommendations provide a desired future condition for the Village.

GFOA "recommends, at a minimum, financial policies in the following areas be developed by professional staff and formally adopted by the jurisdiction's government board as well as the governing boards of those component units; state, provincial, and municipal corporations and organizations; and other bodies under their jurisdiction."

- ***Financial Planning Policies:*** The need to address both the need for a long-term view and the fundamental principle of a balanced budget. At a minimum, jurisdictions should have policies that support:
 - a. **Balanced Budget** - A jurisdiction should adopt a policy(s) that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs. (NACSLB Practice 4.5)

- b. **Long-Range Planning**- A jurisdiction should adopt a policy(s) that supports a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs and assumptions. (NACSLB Element 9, GFOA Recommended Practice)
 - c. **Asset Inventory** - A jurisdiction should adopt a policy(s) to inventory and assess the condition of all major capital assets. This information should be used to plan for the ongoing financial commitments required to maximize the public's benefit. (NACSLB Practice 2.2)
- **Revenue Policies:** Understanding the revenue stream is essential to prudent planning. Most of these policies seek stability to avoid potential service disruptions caused by revenue shortfalls. At a minimum jurisdictions should have policies that address:
 - a. **Revenue Diversification** - A jurisdiction should adopt a policy(s) that encourages a diversity of revenue sources in order to improve the ability to handle fluctuations in individual sources. (NACSLB Practice 4.6)
 - b. **Fees and Charges** - A jurisdiction should adopt policy(s) that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided. (NACSLB Practice 4.2)
 - c. **Use of One-time Revenues** - A jurisdiction should adopt a policy(s) discouraging the use of one-time revenues for ongoing expenditures. (NACSLB Practice 4.4)
 - d. **Use of Unpredictable Revenues** - A jurisdiction should adopt a policy(s) on the collection and use of major revenue sources it considers unpredictable. (NACSLB Practice 4.4a)
- **Expenditure Policies** The expenditures of jurisdictions define the ongoing public service commitment. Prudent expenditure planning and accountability will ensure fiscal stability. At a minimum jurisdictions should have policies that address:
 - a. **Debt Capacity, Issuance, and Management** -A jurisdiction should adopt a policy(s) that specifies appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time. (NACSLB Practice 4.3, 4.3a, GFOA Recommend Practices p.90-92)
 - b. **Reserve or Stabilization Accounts** - A jurisdiction should adopt a policy(s) to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. (NACSLB Practice 4.1)
 - c. **Operating/Capital Expenditure Accountability** - A jurisdiction should adopt a policy(s) to compare actual expenditures to budget periodically (e.g., quarterly) and decide on actions to bring the budget into balance, if necessary. (NACSLB Practice 4.2)

As staff outlined in the presentation at the September 5th Council Meeting, these goals might not be met in a given budget year. As goals, they represent a desired outcome, guiding staff decisions in preparing the budget document. They should be reviewed as part of the annual budget document

to provide a measure or benchmark for Council consideration prior to adoption of the budget. Ultimately Council has the authority to adopt the policies (and can choose to change them at any time), and the budget document (and can choose to change it any time to the extent such changes are consistent with applicable law). These goals simply outline a policies that direct staff to use when developing the annual budget.

Staff has made one minor revision to the policies, based on discussions with the Auditor. This relates to the adoption level of the budget, which basically was clarified to reflect the legal requirement the Village has beginning next year. This change adopts the budget at the fund level, with the exception of those funds that have personnel, where changes to the personnel line require Council approval.

It should be noted that there are really four categories of policies presented to Council. One category is state mandated practices. One category are policies that are considered the "bare minimums" (outlined above). One category are policies considered "recommendations" by the GFOA. One category are policies developed by staff based on the lessons we are learning about how past practices and actions have created the current unsustainable budget situation we now find ourselves in. A brief discussion of each and pros, cons and alternatives follows each policy.

State Mandated Policies

Budget Adoption at Fund Level: The budget adopted by Village Council will be at the fund level, except for personnel where adoption is at the function level. Any changes in appropriations at the fund level, except for personnel where adoption is at the function level, require Council approval.

- The purpose of this is to ensure that appointed officials do not exceed the level of expenditures (appropriation) set by the Village Council. Council solely has the responsibility and authority to establish expenditure (appropriation) limits. The Village is in compliance with current law. However, the Village currently adopts at the fund level, which will need to be changed for the 2007 budget to comply.
- Pros: Ensures state law is followed and funds are available for expenditures.
- Cons: Limits flexibility in budget to adjust to changing circumstances, needs or requirements.
- Alternatives: None.

Cash Management: Cash will be managed in a manner than balances the Village need for liquidity and return, based on the investment vehicles adopted by Council policy. No Village cash will be invested in derivative or speculative risks.

- The purpose of this is to ensure that the Village seeks to invest funds for meeting both our needs for liquidity (the fact we periodically need to use the money invested) and return (the desire for making sure the money is invested in a manner that compensates the Village for the temporary loss and risk of making money available for others). It also prevents investing in vehicles (bonds, securities, equities, assets, etc.) that pose unnecessary and imprudent risk to of loss of principal. The Village currently complies with this practice.
- Pros: Ensures monies invested will mature when needed and be available for uses outlined in the budget. Complies with state law.

- Cons: Limits return on investments.
- Alternatives: None.

Debt limits: Debt will be used sparingly within the limits and capacity authorized by law and voter approval. Debt instruments will not exceed 25 years in duration.

- The purpose of this is ensure that debt (paying principal plus interest) will not be unnecessary used. It makes fiscal sense to plan for capital and operating needs in advance, setting aside funds to accommodate the needs, rather than to pay interest. The Village currently is within debt limits, but has one debt instrument that is excess of 25 years in duration.
- Pros: Ensures debt is minimized, keeping local taxes working for local programs and projects, instead of interest payments.
- Cons: May require more discipline to accomplish, reallocating resources from current programs to capital funds for the purposes of saving for future needs.
- Alternatives: Council can elect to increase or decrease the duration of debt instruments. Accounting practice suggests at a minimum not exceeding the useful life of the asset when issuing debt. As a practical matter, very few agencies issue debt in excess of 25 years.

“Bare Minimum” GFOA Compliant Recommendations

No Operating Deficit (no deficit spending) Balanced Budget: Current revenues will be sufficient to support current expenditures. Revenue estimates will be realistic and debt financing will not be used for current operating expenses. Unpredictable revenue sources should be used for one-time capital needs, not operating needs.

- The purpose is to ensure that revenues and expenditures are matched in the long-run to be sustainable. It should be noted that from time to time, capital projects will create one-time conditions that will result in imbalances. As a result, one-time revenues and one-time expenditures should be labeled as unpredictable and not used for operations. The Village uses conservative revenue estimates and budgets unpredictable revenue sources based on historical averages to minimize variation. Current revenues do not support current expenditures, which over time has created the financial problems facing the Village.
- Pros: Creates a sustainable budget, where long-term resources (revenues) and long-term requirements (expenditures) are in balance. Preventing future generations from having to make difficult sacrifices for prior generations that live outside their means.
- Cons: To the extent that unpredictable (i.e. estate tax) and one-time (i.e. grants, debt, refunds, donations, etc.) have been used to fund on-going programs and services, cuts may need to be effected to bring them into balance.
- Alternatives: Council could define deficit as all expenses (operating and capital) exceeding all revenues (one-time and ongoing), requiring significant fluctuations in operations and capital depending upon the capital needs of a given year.

Resources Greater than Budget Estimates: Resources (fund balance) greater than budget estimates in any fund shall be considered “one-time” resources and shall not be used to fund ongoing services.

- The purpose is to ensure that revenues that occur in excess of the budget (due to unanticipated changes, activity greater than conservatively budgeted for, unpredictable

activity, etc.), are used as “one-time” resources and not used to fund ongoing services. The Village uses beginning fund balances fund service and programs at an unsustainable level.

- Pros: Ensures that service levels are established at a point that is sustainable in the long-run.
- Cons: May result in service levels that sometimes lag the resources available in the short-run.
- Alternatives: Council could elect to treat revenues in excess of expenses as on-going revenues, which may result in unsustainable service levels or periodic fluctuations, both of which affect service levels.

Use of general revenues and user fees: The Village will seek to provide services that benefit the general public using general revenues (local taxes, ongoing intergovernmental revenue). Services that provide benefits to individuals or groups, but not the general public, will be identified for cost recovery through user fees on a sliding percentage scale based on policies established by Council. The Village uses user fees inconsistently (in terms of where they are collected, the level collected and the subsidy needed to balance).

- The purpose is to ensure, given the limited level of financial revenues available to the Village, that those resources are allocated to provide services that benefit everyone first. Services that benefit the community in a broad general sense where everyone in the community benefits (i.e. police, fire, streets, administration) are funded using general revenues (i.e. taxes, ongoing intergovernmental revenue, etc.). Those services providing benefit to individuals where the individual is the primary beneficiary of the service (i.e. parks, pool, building permits, water service, sewer service, etc.) of the community are well suited for some level of user fees as a revenue source. The type and level of fees are to be determined on a sliding scale based on the level of community benefit as Council adopts. The Village is inconsistent about how user fees and the level of subsidies are established, making it difficult to provide effective services. The Village is also facing severe limits to the general revenues available to it, when compared to the need for programs and services.
- Pros: Creates a more equitable and fair taxation structure, that more closely aligns those who use specific services to those who pay for those specific services. Since people don't have an option to pay taxes, it ensures that basic services are available to all (assuming that basic services can be funded within the existing revenues). Conversely, since people can elect to limit or minimize the use of user fee supported programs and services, it ensures that those that elect to benefit from those services pay for them. Allows Council, as the elected representatives, to establish a scale that better defines these parameters.
- Cons: To the extent that general revenues have been historically used to fund services that provide benefits to individuals, rather than the community as a whole, Council will need to address changing this level of subsidy given competing interests and mandates.
- Alternatives: Council can elect to not differentiate revenue types and consumer types, this would require considerably more revenues or a substantial cut in services to effect. Council could also elect to require all user fee supported services be 100% self-supporting.

User fees for enterprise funds: Enterprise funds will be funded entirely using a user fee rate structure that covers the true cost of operation, including operation, maintenance, periodic capital replacement, debt service requirements and other costs deemed necessary. Temporary loans can be made between funds as allowed by law, with Council approval, as long as such amounts are used for one-time expenditures.

- The purpose is to ensure, given the limited level of financial revenues available to the Village, that those limited resources are allocated to provide services that benefit everyone first. This policy further states that the enterprise funds are funded using user fees, not general resources. These user fees should be established to reflect the true cost of the service, including the need for periodic replacement, debt service and other costs. The Village does not currently set aside funds for periodic capital replacement, which has resulted in the tremendous challenges the Village faces with infrastructure maintenance and capital needs.
- Pros: Ensures that those who elect to use more of a service, pay the costs associated with that decision. Ensures that the costs of the service are truly reflective of the actual cost of the service in the long-run. Ensures that those Villagers who elect to not use the utility services provided by the Village, are not subsidizing those who do elect to use them.
- Cons: To the extent that the true cost of providing the service has not been adequately reflected in fees for the service, fees may need to increase. Stabilization funds could be established to limit the initial impact of such an increase.
- Alternatives: Enterprise funds could also be support with general revenues, but this creates problems if certain revenue types are used (i.e. property taxes are only deductible on federal income tax to the extent that they provide a general service, not a specific service to a property, it would be the responsibility of the taxpayer to sort out, creating a difficult situation for residents). It also creates an equity issue as some utilities are extended to residents outside the Village limits, some Village residents use other service providers, some Village residents elected to invest their own resources for water, sewer, refuse and power and would not benefit as much. Council could elect to not factor in replacement costs, but that would create a difficult situation for budgeting, as the spending levels would be inconsistent from year to year, requiring new revenues, service cuts or both.

Reserves and Stabilization Funds: Fiscal reserves will be maintained according to the reserve policy established by Council to protect against the need to reduce service levels, raise taxes or fees due to temporary revenue shortfalls or unprecedented one-time expenditures. To the extent allowed by law, reserve and stabilization funds should be established for this purpose.

- The purpose is to encourage the prudent use of reserves and stabilization funds to protect against large fluctuations that create a hardship for the community. The Village currently uses beginning and ending cash balances to fund reserves, increasing the likelihood of operating imbalances. Establishing separate funds for this purpose will greatly aid in public understanding of the budget.
- Pros: Ensures that services and program can continue during difficult fiscal conditions, so that there is time for a rational and informed community dialogue on how to address the imbalances and correct them. Minimizes the impact of changes in fee structure, which tend to adversely impact residents living on fixed incomes.

- Cons: Requires funds be set aside for this purpose, which in itself is a cost. This can be tempered by setting aside funds during good fiscal health or using one-time unanticipated revenues.
- Alternatives: Council can elect to not use reserve funds or stabilization funds, which forces the Village to carry a larger beginning and ending cash balances and creating misunderstandings about how the budget works.

Revenues: Opportunities to diversify revenue sources will be sought to decrease the dependence upon any single revenue source as a general revenue source.

- The purpose is to ensure that one single source of revenue does not constitute the overwhelming majority of the Village's resources, making it extremely vulnerable to fluctuations that may require additional revenues, reduced services or a combination of the two to bring the budget into balance. The Village is experiencing this now with the loss of income tax revenues from the elimination of Vernay Lab jobs.
- Pros: Limits the potential for service reductions or need for new revenues.
- Cons: Requires considerable effort to explain why new revenues are needed, as many revenues require voter approval. May result in reduction of other revenue sources to create a better balance of revenue sources.
- Alternatives: Council could elect not to diversify revenue sources, making it very vulnerable to fluctuations in revenues periodically, requiring new revenues, program cuts or both.

Long-term projections: The Village shall include in the budget a forward-looking examination of revenues and expenditures based on historical trends and anticipated major events to allow the greatest amount of time to adjust revenues and/or expenditures to accomplish balance.

- The purpose is to ensure that the budget looks forward in the budget to examine trends and events that might create financial problems in the future, allowing for a timely and reasoned development of policy alternatives and adjustments to prevent such problems from happening. The Village currently does not examine into the future as part of the budget, although a five-year plan was developed some time ago that did foreshadow the current fiscal problems of the Village.
- Pros: Provide time to respond to changing circumstances
- Cons: To the extent that some events can not be predicted, this practice will not be completely effective at providing time to solve fiscal problems.
- Alternatives: Council could elect to not examine the future in the budget, perhaps creating a similar situation as we face today in the future.

NACSLB Best Practices Compliant Recommendations

Necessary to Implement Council Goals: Village Council identified goals as part of its work plan and departmental budgets should include adequate resources to accomplish these goals.

- The purpose of this is to ensure that the annual workplan established by Council is incorporated into the annual budget. This ensures that adequate resources are available to achieve the goals set by Council. The current budget was prepared by staff prior to goal adoption, and timeliness and resource limitations prevented the goals from being based on the fiscal limits of the Village. It is important to note that goals sometimes require one-time

funds and on-going revenues to accomplish, such as when new programs or services are created.

- Pros: This ensures resources are available for Council goals. Goals reflect the issues that Council, as representatives of the people, reflect the matters affecting our community.
- Cons: To the extent that goals require resources in excess of those available, goals may need additional resources, changes to programs and services, or both to accomplish.
- Alternatives: Council could elect to not include this, reducing the chance of accomplishing Council goals.

Infrastructure protection: The water, sewer, electric, stormwater, and transportation infrastructure of the Village constitutes the Village's largest physical asset. Funding this ongoing need is a high priority, through effective maintenance and operation practices.

- The purpose of this is to ensure that effective maintenance and operation practices are used to ensure that the Village's largest physical asset is maintained in a manner that provides the greatest return on the investment in that asset possible. Maintenance and capital replacements have been deferred in our infrastructure in the past, increasing the capital costs to repair/replace these essential assets.
- Pros: This helps to ensure that the requirements for our infrastructure remains a high priority, so that it can continue to function to ensure the life, health, safety and welfare of our community.
- Cons: May periodically require an examination of conditions, needs, resources and requirements to ensure that the needs are met. This may require new resources, changing service levels or programs, or both to meet community needs.
- Alternatives: Council could elect to not include this policy, risking the continued operation of essential assets that protect the life, health and safety of the community.

Investments that delay future cost increases: When practical, resources should be allocated for preventative investments that avoid larger future capital and/or operating costs.

- The purpose is to encourage using our resources to provide the "best bang for the buck" in terms of avoided future costs (both one-time and ongoing). This creates a dividend in reduced future costs that allow more resources to fund the things that differentiate our community and make it a better place to live, work and play. The Village has deferred maintenance, due to resource limitations.
- Pros: Provides priority funding for those investments that reduce future costs, rather than continuing to postpone those costs and face higher costs in the future.
- Cons: May result in changes in service levels, programs or require additional resources to accomplish.
- Alternatives: Council could elect to not include this policy, which could result in budget requests that do not consider the effectiveness of investments in the future, missing opportunities to be cost effective and requiring additional resources in the future.

Investments that forestall adding permanent staff: Recognizing that personnel costs continue to increase, methods to increase efficiency and effectiveness of services through technology improvements should receive priority for funding if they forestall the need to add permanent staff.

- The purpose is to consider adding staff as a last resort, using technology, modern equipment and methods to increase efficiency and effectiveness. This prioritizes things

that help make staff more efficient, before adding staff. Staff costs are one of our fastest growing costs, as health care expenses, mandated pension costs and cost of living adjustments have historically increased faster than other costs.

- Pros: Ensures efficiency.
- Cons: Requires changes to methods and equipment periodically to make happen, often requiring training and equipment cost increases.
- Alternatives: Council could elect to not include this policy, which could result in budget requests that do not consider the effectiveness of investments in the future, missing opportunities to be cost effective and requiring additional resources in the future that could be more costly in the long-run.

Capital Asset Replacement and Inventory: The Village shall assess the condition and anticipated replacement needs of all major capital assets.

- The purpose is to ensure that the Village proactively reviews the condition and replacement needs, and anticipates funding needed to make replacements, rather than react when assets fail or need replacements. The Village currently has a very limited condition assessment largely related to streets, water, and the wastewater plant. More work needs to be completed on evaluating the condition of all assets – particularly related to electric, vehicles, sewer and facilities.
- Pros: Minimizes the unanticipated costs associated with assets needing replacement prematurely.
- Cons: Requires continual effort and setting aside funds to accomplish. To the extent that resources are inadequate for this purpose, service changes, reallocations or new resources may be needed to accomplish this.
- Alternatives: The Village could elect to not consider condition or replacement needs, putting the Village into being reactive, resulting in greater variations of costs and revenues needed to balance.

Staff Recommended Practices Based on Experience

Commitments to service delivery reasonable over time: Funding for programs using operating funds should be limited to the extent that they can reasonably be funded over the near- to long-term using the current revenue stream.

- The purpose is to take the information provided by looking at the long-term picture for revenues and resources and applying it to current programs and service levels. If there is substantial uncertainty about providing funding for a given service in the future, efforts need to be made to bring them into balance. Similarly, the Village will should not take on new programs or increase existing service levels, without ensuring that there are adequate revenues for the foreseeable future.
- Pros: Ensures sustainable services for future generations.
- Cons: Limit adding new services or increasing service levels to those things that are financially sustainable (either through user fees, new revenues, other program cuts, etc.)
- Alternatives: Council can elect to consider programs and services on a year-to-year basis, which could result in having to make last minute decisions about services, based on resources available. Council could also elect to require a revenue stream in the near- or long- term before adding any new program or service, but not for existing services.

Overhead and Full Cost Allocation: Department budgets should be prepared in a manner that reflects the true and full cost of providing services.

- The purpose is to ensure that costs are prepared in such a manner that reflects the actual costs associated with the service. Financial rating agencies increasingly are requiring municipalities to attest to some sort of full and actual cost language when seeking credit ratings. There are some services where the Village does not allocate overhead, or allocates it at a higher level that masks the true cost.
- Pros: Understanding the true costs associated with services are vital to public understanding of the budget and providing information that allows Council to make informed decisions.
- Cons: To the extent that some services do not reflect the true cost associated with the service, it may appear that the costs are increasing. Depending on the level of user fees used, the level of general fund support, this may result in increased user fees.
- Alternatives: Council can elect to not allocate overhead and costs to reflect the true cost of a service, this would make certain services appear less costly and other overhead services vital to the service appear to be more expensive.

Maintenance of Quality Service: The Village will offer quality service programs that are effective. Should expenditure reductions become necessary as a result of changing economic conditions or revenue shortfalls, selective service elimination is preferable to poor or marginal quality services that are caused by across the board reductions and cuts.

- The purpose is to ensure that the services the Village provides are effective, providing some desired outcome or return for the investment. In essence, defining what it is we do and doing it well. This differs from trying to be all things to all people, offering a wide variety of services, but (since resources are limited) not being effective at providing them. To avoid the later, it is consistent to (assuming the Village is unable to generate new resources) eliminate certain services rather than lower the level of service across the board that results in poor or marginal services that don't add value.
- Pros: Ensures quality services are provided when we are providing a service.
- Cons: May require making difficult decisions on what how to respond to reductions in revenues or changing economic conditions.
- Alternatives: Council could elect to add seeking voter approval for new revenues, prior to elimination. Council could also elect to make across the board cuts, rather than selecting service for elimination. Contractual services may not be subject to across the board reductions, depending on the contract, making deeper cuts necessary in other places where it is allowable.

Recommendation

Staff recommends adoption of Resolution 2006-__ Adopting General Budget Policies

Resolution 2006- __

**A RESOLUTION OF THE VILLAGE OF YELLOW SPRINGS, OHIO
ESTABLISHING POLICIES FOR DEVELOPING ANNUAL BUDGET
DOCUMENTS**

WHEREAS, the Village Council recognizes the combined practical, academic, professional, and legal basis for the work of the Government Finance Officers Association (GFOA) in establishing recommended practices for the development of annual budget documents, and,

WHEREAS, the GFOA participated in the development of the National Advisory Council on State and Local Budgeting, and the comprehensive set of recommended budget practices that the Advisory Council adopted, and,

WHEREAS, the Village Council endeavors to improve the budget process in the future by establishing a set of policies to guide budget development, improving readability and understanding of the budget document, enhancing dialogue with stakeholders in the policy decisions outlined in the budget, and,

WHEREAS, the Village Council seeks to establish policies that serve as goals for budget development, requesting that staff provide a written overview of extent that the Village is able to meet these policies with each budget for Council to discuss, prior to budget adoption.

NOW, THEREFORE, THE COUNCIL OF THE VILLAGE OF YELLOW SPRINGS, OHIO HEREBY RESOLVES THAT:

Section 1. The following is adopted as the Budget Policies for the Village of Yellow Springs:

No Operating Deficit (no deficit spending) Balanced Budget: Current revenues will be sufficient to support current expenditures. Revenue estimates will be realistic and debt financing will not be used for current operating expenses. Unpredictable revenue sources should be used for one-time capital needs, not operating needs.

Resources Greater than Budget Estimates: Resources (fund balance) greater than budget estimates in any fund shall be considered “one-time” resources and shall not be used to fund ongoing services.

Budget Adoption at Fund Level: The budget adopted by Village Council will be at the fund level, except for personnel where adoption is at the function level. Any changes in appropriations at the fund level, except for personnel where adoption is at the function level, require Council approval.

Necessary to Implement Council Goals: Village Council identified goals as part of its work plan and departmental budgets should include adequate resources to accomplish these goals.

Infrastructure protection: The water, sewer, electric, stormwater, and transportation infrastructure of the Village constitutes the Village's largest physical asset. Funding this ongoing need is a high priority, through effective maintenance and operation practices.

Investments that delay future cost increases: When practical, resources should be allocated for preventative investments that avoid larger future capital and/or operating costs.

Investments that forestall adding permanent staff: Recognizing that personnel costs continue to increase, methods to increase efficiency and effectiveness of services through technology improvements should receive priority for funding if they forestall the need to add permanent staff.

Commitments to service delivery reasonable over time: Funding for programs using operating funds should be limited to the extent that they can reasonably be funded over the near- to long-term using the current revenue stream.

Overhead and Full Cost Allocation: Department budgets should be prepared in a manner that reflects the true and full cost of providing services.

Maintenance of Quality Service: The Village will offer quality service programs that are effective. Should expenditure reductions become necessary as a result of changing economic conditions or revenue shortfalls, selective service elimination is preferable to poor or marginal quality services that are caused by across the board reductions and cuts.

Use of general revenues and user fees: The Village will seek to provide services that benefit the general public using general revenues (local taxes, ongoing intergovernmental revenue). Services that provide benefits to individuals or groups, but not the general public, will be identified for cost recovery through user fees on a sliding percentage scale based on policies established by Council.

User fees for enterprise funds: Enterprise funds will be funded entirely using a user fee rate structure that covers the true cost of operation, including operation, maintenance, periodic capital replacement, debt service requirements and other costs deemed necessary. Temporary loans can be made between funds as allowed by law, with Council approval, as long as such amounts are used for one-time expenditures.

Debt limits: Debt will be used sparingly within the limits and capacity authorized by law and voter approval. Debt instruments will not exceed 25 years in duration.

Reserves and Stabilization Funds: Fiscal reserves will be maintained according to the reserve policy established by Council to protect against the need to reduce service levels,

raise taxes or fees due to temporary revenue shortfalls or unprecedented one-time expenditures. To the extent allowed by law, reserve and stabilization funds should be established for this purpose.

Revenues: Opportunities to diversify revenue sources will be sought to decrease the dependence upon any single revenue source as a general revenue source.

Capital Asset Replacement and Inventory: The Village shall assess the condition and anticipated replacement needs of all major capital assets.

Operating Accountability: The Village shall review expenditures and revenues quarterly, and decide on actions to bring the budget into balance, if necessary.

Long-term projections: The Village shall include in the budget a forward-looking examination of revenues and expenditures based on historical trends and anticipated major events to allow the greatest amount of time to adjust revenues and/or expenditures to accomplish balance.

Cash Management: Cash will be managed in a manner than balances the Village need for liquidity and return, based on the investment vehicles adopted by Council policy. No Village cash will be invested in derivative or speculative risks.

Jocelyn Hardman, President of Council

Passed:

Attest: _____
Deborah Benning, Clerk of Council

ROLL CALL:

Kathryn Chase _____ Jocelyn Hardman _____ Judith Hempfling _____

Bruce Rickenbach _____ Karen Wintrow _____