

**RESOLUTION TO ADOPT FISCAL POLICIES  
FOR THE CITY OF FALLS CHURCH**

WHEREAS, the City Council of the City of Falls Church is charged with the ultimate oversight of the fiscal activity of the City government; and

WHEREAS, City Council is resolved to adopt best practices in the prudent exercise of their oversight responsibilities; and

WHEREAS, the City Council has taken significant steps in recent years to restore the City's financial condition and designate funds toward long range capital needs, and over the coming year the Council will continue to consider ways to move further, including consideration of policies that would set a minimum level of effort toward capital spending to ensure that the City schools, facilities, and infrastructure that serve the community are adequately maintained.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Falls Church does hereby adopt a comprehensive set of fiscal policies as follows.

**CITY OF FALLS CHURCH  
FISCAL POLICIES**

**I. PLANNING AND BUDGETING – ALL FUNDS**

**A. Governing Legislation**

The adoption and implementation of the City of Falls Church's (the City) budget shall be governed by Chapter 6 of the City Charter and Chapter 10 of the City Code. This policy shall not override any of the provisions of the Charter and the Code, but rather, shall provide supplemental guidance on the adoption and implementation of the City's budget.

**B. General**

The City of Falls Church will adopt an annual General Fund budget in which the budgeted revenues and expenditures are equal (a balanced budget). The budget shall clearly delineate the sources of funding for each year's expenditures. Any one-time revenues or use of unassigned fund balance will be used for one-time, non-recurring expenditures such as capital assets, pay-as-you-go projects in the Capital Improvement Program (CIP), equipment, special studies, debt reduction, and reserve contributions. Restricted or committed fund balances may only be used for the purpose so stated.

Each year's budget may include a General Fund Contingent appropriation ("Council Reserve") to cover unforeseen expenditures, new projects initiated after a fiscal year has begun, or revenue shortfalls. Unexpended amounts in this reserve at fiscal year end may be re-appropriated by Council for use in the subsequent fiscal year. Funding may be allocated from this contingent appropriation only by resolution of City Council.

The City will adopt annual Utility Funds budgets in which the budgeted revenues from fees and charges, investment earnings, and operating grants will be sufficient to meet operating expenses and debt service. Availability fees, including availability fees accumulated from previous years, will only be used to offset the costs of providing additional capacity, including debt service on any debt incurred to finance such projects. Any one-time revenues or use of unrestricted net assets will be used for one-time, non-recurring expenses such as capital, equipment, special studies, debt reduction, and reserve contributions. Restricted net assets may only be used for the purpose so stated.

The City will prepare and update annually a five-year Capital Improvement Program (CIP) to be approved by City Council. At the same time, the City Council will adopt an annual budget for the Capital Fund including a resolution to bond projects requiring that source of funding. The CIP will be developed with an analysis of the City's infrastructure and other capital needs, and the financial impact of the debt service required to meet the recommended financing plan.

Except for trust funds, the City will adopt an annual budget for all other funds including the School Board and the Economic Development Authority.

The City Council will adopt all budgets by Ordinance.

### **C. Budget Amendments**

Amendments to any budget that require an increase in revenue and/or expenditure requires an Ordinance to be passed by the City Council.

Transfers of funding between departments, as defined by the City's organization structure, requires a resolution by the City Council. Any transfers to and from the Water Fund and Sewer Fund constitute an increase in each of the Funds' budgets and therefore requires an Ordinance to be passed by the City Council.

Transfers within departments require an approval by the City Manager and by the Chief Financial Officer.

Transfers between capital projects require a resolution by the City Council.

### **D. Funding of Post-Retirement Benefits**

The City will use an actuarially-accepted method of funding its pension system to maintain a fully-funded position. The City's contribution to employee retirement costs will be adjusted annually as necessary to fully fund its actuarially-required contributions (defined as City and employee contributions, if any, that when expressed as a percent of annual covered payroll are sufficient to accumulate assets to pay benefits when due).

The City will use an actuarially-accepted method of funding its other post-employment benefits to maintain a fully-funded position. The extent of the City's *other* post-employment benefits and its contribution to them will be adjusted annually as necessary to fully fund its actuarially-required contribution (defined as City and employee contributions, if any, that when expressed as a percent of annual covered payroll are sufficient to accumulate assets to pay benefits when due).

#### **E. Transfers from Utility Funds**

Transfers from the Utility Funds to the General Fund may be done for reimbursement of administrative expenses based on a reasonable method of calculation and payment in lieu of taxes.

## **II. DEBT MANAGEMENT**

### **A. General Fund**

The City of Falls Church will adhere to the following policies whenever the City issues new bonds:

1. Total General Fund supported debt shall not exceed 5% of the net assessed valuation of taxable real estate property in the City.
2. Annual debt service expenditures for all General Fund supported debt shall not exceed twelve percent (12%) of total General Fund operating expenditures, including school board transfer and debt service.
3. The term of any debt issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.
4. The city shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
5. The City shall comply with all requirements of Title 15.2 Code of Virginia and all other legal requirements regarding the issuance of bonds and certificates of the City or its debt issuing authorities.
6. At least 25% of total debt will be repaid within five years and at least 50% of total debt within ten years.

7. Debt shall be defined as bonds, capital leases, lines of credit, and certificates of participation or any other instruments that constitute evidence of indebtedness on the part of the City.

The Council shall put to referendum certain general obligation bonds:

1. Where the aggregate amount of the bond, for the bonded project or portion thereof exceeds ten percent of the General Fund budget for the fiscal year in which the bond(s) are anticipated to be issued.
2. The referendum requirement does not apply to bonds issued for water, sewer, fire, police and medical services projects.

In addition, Article VII of the Constitution of the Commonwealth of Virginia limits the City's debt capacity to not more than 10% of the assessed valuation of taxable real estate property in the City.

## **B. Utility Funds**

The City may issue bonds to fund enterprise activities, such as water and sewer utilities, or for capital projects which will generate a revenue stream.

1. The bonds will be issued only if revenue sources are identified that are sufficient to fund the debt service requirements.
2. Costs of issuance, debt service reserve funds, and capitalized interest may be included in the capital project costs and thus are fully eligible for reimbursement from bond proceeds.
3. Bonds may be issued either as revenue bonds or as City general obligation bonds. In either case, the debt service coverage for the fund supporting the debt shall be at least 105%. Debt service coverage is calculated by dividing operating income by the bonds' total debt service.

## **III. FUND BALANCE AND NET ASSETS**

### **A. General Fund**

Unassigned fund balance is a key element of financial resilience for any municipal organization. An unassigned fund balance at 17% of expenditures represents two months of operating expenditures, and is held in reserve to mitigate the impacts of unanticipated revenue shortfalls, and provide a buffer for unexpected expenditure requirements. Capital reserves, similarly, allow the City to execute a multi year capital plan with a buffer against unforeseen economic events.

The City of Falls Church adopts the following policy for its Unassigned General Fund balance:

1. The goal for unassigned fund balance shall be 17%, but not less than 12%, of the actual General Fund expenditures for the then current Fiscal Year, and these funds shall be appropriated by the City Council.
2. In the event that the unassigned fund balance is used to provide for temporary funding of unforeseen emergency needs or used to mitigate effect of unbudgeted revenue shortfall, the City shall restore the unassigned fund balance to 12% of the actual General Fund expenditures for the then current fiscal year within two fiscal years following the fiscal year within which the event occurred. To the extent additional funds are necessary to restore the unassigned General Fund Balance to 17% of the actual General Fund expenditures for the then current year, such funds shall be accumulated in no more than three approximately equal contributions each fiscal year; this shall provide for full recovery of the targeted fund balance amount within five years following the fiscal year in which the event occurred.
3. The following are other types of fund balance as defined by Governmental Accounting Standards Board (GASB) and should not be included in the calculation of the ratio discussed in item 1:
  - a. Restricted fund balance represents that portion of fund balance that is restricted for a specific future use either by enabling legislation, donor, or bond covenant. This fund balance is required to be used or maintained for the specific purpose so stated.
  - b. Committed fund balance represents fund balance that is committed by the City Council to be used for a specific purpose, such as funds committed to be used for capital projects in the Capital Improvement Project fund. Such commitment may only be reversed by similar action that committed it. Such commitment should be supported by definitive plans approved by the City Council.
  - c. Non-spendable fund balance represents that portion of the fund balance that is not available for future spending such as prepaid items, inventory and long-term notes receivables.
  - d. Assigned fund balance represents amounts that are constrained to be used for specific purpose (such as towards contracts) by either the City Council or the City Manager.

4. The City shall establish a capital reserve fund balance and it shall be a committed fund balance. The balance shall be maintained at 5% of General Fund fixed assets OR \$3,750,000, whichever is lower. The City shall meet this goal by FY2021 through annual appropriations of \$500,000, and thereafter appropriate no less than \$375,000 per annum to capital reserve. The capital reserve fund balance shall be used to pay for projects in the Capital Improvement Program or for debt service for those projects. The use of this fund balance shall be included in the annual appropriation or in budget amendments passed by the City Council through an Ordinance. The City may go below the minimum balance to fund unforeseen emergency capital needs. In the event that this happens, the City shall restore the required balance within three (3) fiscal years.

## **B. Utility Funds**

It is the City's goal, pursuant to the utility rate studies provided by consultants, to have positive unrestricted net assets for its Utility Funds in its Statement of Net Assets that reflect economic well-being.

1. Unrestricted net assets shall be greater than 25% of total operating expenses at fiscal year-end, to provide reserves for operations and future capital improvements.
2. There will be a restriction of net assets for investment in capital assets, net of related debt, as required by Generally Accepted Accounting Principles.
3. Designation of unrestricted net assets represents plans by management. Such designations should be supported by definitive plans approved either by the City Council or the City Manager.
4. The City shall establish a capital reserve for the Water Fund. The balance shall be maintained at 2% of fixed assets OR \$2,500,000, whichever is lower. The City shall meet this goal by FY2016 through annual appropriations, and thereafter appropriations of \$500,000 per annum. The capital reserve shall be used to pay for projects in the Capital Improvement Program or for debt service for those projects. The use of these funds shall be included in the annual appropriation or in budget amendments passed by the City Council through an Ordinance. The City may go below the minimum balance to fund unforeseen emergency capital needs. In the event that this happens, the City shall restore the required balance within three (3) fiscal years.
5. The City shall establish a capital reserve for the Sewer Fund. The balance shall be maintained at 2% of fixed assets OR \$400,000, whichever is lower. The City shall meet this goal by FY2022

through appropriation of \$50,000 per annum commencing in FY2014. The capital reserve shall be used to pay for projects in the Capital Improvement Program or for debt service for those projects. The use of these funds shall be included in the annual appropriation or in budget amendments passed by the City Council through an Ordinance. The City may go below the minimum balance to fund unforeseen emergency capital needs. In the event that this happens, the City shall restore the required balance within three (3) fiscal years.

All definitions of “fund balance”, “net assets”, “revenues”, “operating revenues”, “expenditures” and “expenses” shall comply with Government Accounting Standards Board definitions.

#### **IV. FISCAL POLICIES – ADOPTION**

1. The City’s fiscal policies shall be adopted by resolution of the City Council.
2. The fiscal policies shall remain in effect until such time as they are amended or repealed by subsequent Council action, and will be presented to City Council every two years within ninety days of a new Council taking office.

Reading: 12-12-11  
Adoption: 12-12-11  
(TR11-35)

IN WITNESS WHEREOF, the foregoing was adopted by the City Council of the City of Falls Church, Virginia on December 12, 2011 as Resolution 2011-45.



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Kathleen Clarken Buschow  
City Clerk