A few weeks ago, at a Committee of the Whole meeting we did an opening round asking the City Council and department heads to note an achievement from the last six to nine months. It was a chance to brag about your own department or committee or to recognize the accomplishments of others.

Although we wanted no repeat comments, the city's finances were noted several times: from being overall impressed with the city's financial health, to being pleased that we've maintained our budget within levy limits, to recognizing our recent A+ credit rating from Standard & Poors.

Of course, dozens of other accomplishments were appreciated. But, since we're only a month from the departments and committees beginning to plan next year's budget, I figured I'd write a piece about the city's financial policies.

Purchasing
The city's Purchasing Policy balances a practical process whereby employees are able to purchase items appropriate to their operations with safeguards for the use of public dollars.

The thrust of the safeguards is that only goods and services within the dollar amounts of the adopted budget are authorized for purchase. This is essential, because the Common Council has the legal responsibility for the management and control of the city property and finances. This responsibility is primarily exercised in Council's setting the budget (discussed in greater detail later in this column).

Other safeguards include bidding procedures for public construction projects and capital expenditures, an attention interest rates and ancillary expenses for multi-year obligations, and accounts payable procedures.

Under the state's conflict of interest laws, purchases are prohibited where an employee or official may be (or may appear to a reasonable person to be) influenced by potential financial gain, either direct or indirect, for the employee, a member of his or her immediate family, or an organization with which he or she is affiliated.

On the practical operations side, department heads have the discretion to purchase goods and services as they deem appropriate for the operation of their departments within the parameters of the policy. Department heads may also delegate purchasing authority to staff but remain responsible for oversight and internal controls over such spending. Department heads also have the discretion to combine the dollar amounts of individual line items within a single department to stay within the approved budget.

Budget
Annually, the Common Council adopts two budgets: an operating budget and a capital budget. The operating budget represents ongoing services and activities the city performs year after year. The capital budget includes periodic, large-ticket items such as construction projects and vehicle purchases. Besides the annual ritual of developing and

adopting the budget, Evansville uses the budget throughout the year as a management tool as a responsible steward of public dollars.

The budget starts with revenues; this is the key to holding spending within our means. Over the next few weeks, I will be looking at estimates for shared revenues, transportation aid, and other money the city receives from the state. I will also look at projections for user fees and utility rates. And I will consider levy limits, the expenditure restraint program, impact fees, and similar legal limitations on municipal revenues.

We maintain a structural balance in the budget. Although we are required to have a balanced annual budget, we go beyond that with an eye toward being able to sustain the budget in the long-term. The obvious example is to match one-time sources of money with one-time uses. Grants or other donations are better used for individual projects or purchases rather than operations or staff which would continue to cost money every year after the grant. Another example is maintaining our assets, in particular infrastructure. In a tight economy, we may be able to defer maintenance for a year or two, but it cannot become a long-term approach.

We also use the budget as a management tool. As mentioned earlier, we allow department heads the flexibility to combine or adjust individual line-items in their budgets so long as they stay within the department's overall budget and do not cause ongoing expenses or commitments. And we formally consider budget amendments in the middle of the year and at the end of the year. We also monitor budget-to-actual variances throughout the year. Our department heads are frugal in their own right, but I think these flexibility features help to discourage "spending to the budget," a problem common in some municipalities.

Fund Balance

Fund balance reserves are an important component in ensuring the overall financial health of the community, by giving the city short-term and long-term financial stability to meet contingency needs, cash-flow timing, fluctuations in major revenue sources, and credit rating concerns. Indeed, our policy for maintaining adequate fund balance was a key factor in our recent, favorable A+ credit rating.

The city aims to maintain an unassigned General Fund balance within a range of 35% to 40% of budgeted operating expenditures. This equates to roughly four to five months of operations, a relatively long period in order to address cash flow due to only receiving property tax collections and state revenues a few distinct times during the year.

The city also aims to maintain cash and investments in total Enterprise Funds within a range of 8% to 12% of budgeted operating procedures. The Enterprise Funds are the city's electric, water, sewer, and stormwater. Because the utilities generate income on a monthly basis throughout the year, cash-flow is a lesser concern than for the General Fund. And four to six weeks of operations is adequate.

Debt Management

Under state law, cities are limited to general obligation debt of 5% of the equalized value of all property in the city. For years, under the advice of our financial advisors at Ehlers Associates, the city maintained an affordability target of half (50%) the state limit. Last year, the Common Council adopted this affordability target in a formal, written Debt Management Policy. With the bond issue at the start of the year, we are currently at approximately 49%.

Another part of debt management, the city's capital improvements plan (CIP) provides for systematic repair and upgrade of infrastructure. Having infrastructure projects identified in a five-year plan allows time for planning, engineering, scheduling, and financing well in advance of potential capital projects. With financing, it is particularly important to also consider cash on hand and to balance debt payments with existing debt service projections.

Conclusion
Having financial policies in place helps inform quality decisions and ensure consistency to address current needs and plan for long-term stability.