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AGENDA
Council Finance & Audit Committee
November 16, 2020
10:00 am - noon
Zoom Meeting <https://zoom.us/j/8140111859>

Approval of Minutes from the October 19, 2020 Council Finance Committee meeting.

- | | | |
|--|----------|------------------------|
| 1. 2020 Financial Policy Updates | 30 mins. | B. Dunn |
| | | |
| 2. Supplemental Appropriation for Increased Premium for Self-Insurance | | |
| | 20 mins. | C. Goodwin
Z. Mozer |

Fund Review Schedule for Council Finance Committee:

Fund	Timing
Parking	August 2020
Recreation	December 2020
Self-Insurance	November 2020
Cultural Services	TBD, if applicable

Council Finance Committee
Agenda Planning Calendar 2020
RVSD 11/10/20 ck

Nov. 16th			
	2020 Financial Policy Updates	30 min	B. Dunn
	Supplemental Appropriation for Increased Premium for Self Insurance	20 min	C. Goodwin Z. Mozer

Dec. 21st			
	Recreation Budget Review	30 min	J. Stokes B. Adams
	South Timberline Widening Project Appropriation	20 min	N. Currell

Future Council Finance Committee Topics:

- Park/Median Design Standards & Maintenance Costs – TBD
- Metro District Policy Update – TBD 2020



Finance Committee Meeting Minutes
October 19, 2020
10:00 am - noon
Zoom Meeting

Council Attendees: Mayor Wade Troxell, Ross Cunniff, Ken Summers, Susan Gutowsky

Staff: Darin Atteberry, Kelly DiMartino, Travis Storin, Carrie Daggett, John Duval, Tyler Marr, Josh Birks, SeonAh Kendall, Theresa Connor, Jill Oropeza, Lawrence Pollack, Cody Forst, Blaine Dunn, Dave Lenz, Jo Cech, Zack Mozer, Kelley Vodden, Jordan Granath, Jennifer Poznanovic, Randy Reuscher, Shannon Hein, Noelle Currell, Mark Kempton, Victoria Shaw, Wendy Bircher

Others: Kevin Jones, Chamber of Commerce

Meeting called to order at 10:03 am

Approval of Minutes from the September 21, 2020 Council Finance Committee Meeting. Ken Summers moved for approval of the minutes as presented. Ross Cunniff seconded the motion. Minutes were approved unanimously.

A. Proposal to Cap 3rd Party Food Delivery Fees

Josh Birks, Economic Health Officer

EXECUTIVE SUMMARY

Several local restaurateurs and the Colorado Restaurant Association (CRA) have requested the City consider capping 3rd Party Delivery Fees on food for the duration of the COVID-19 pandemic. Capping these fees may provide much needed relief for restaurants helping them bridge the cold months when patio dining will slow reducing other sources of revenue. According to the Colorado Restaurant Association:

- Typical fees for 3rd party delivery can range as high as 30-35%
- Fees are negotiated independently
- A fee over 20% typically erases all profit for the restaurant
- Small, single location locally owned restaurants are the hardest hit – they do not have negotiating power to get lower fees

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee feel the proposal is ready for Council consideration?
2. What additional information should be shared with the full Council?

BACKGROUND/DISCUSSION

Many independently owned restaurants face a daunting task – earning revenues while simultaneously aiding in the fight against the spread of COVID. As a result, the primary revenue generator for most restaurants has been significantly diminished – dining room capacity. These businesses have turned to 3rd Party Delivery Companies (3rd Parties) to capture added revenue from delivery orders. These companies make money by charging both the restaurant and the customer for the delivery.

Business Case

Based on conversations with numerous restaurateurs, carry-out now accounts for a significant portion of their business revenue. One restaurant owner stated that previously carry-out and delivery appraised three to five percent (3-5%) of their revenue. Today, during restricted dining room capacity, delivery, and carry-out accounts for one-third of their revenue. This is a 10x increase. Additionally, this same operator indicated that outdoor patio dining accounts for another third of their revenue. Numerous restaurant operators report similar impacts from COVID on the make-up of their sales and thus revenue.

These same operators report that 3rd Party fees are erasing the narrow margin they have traditionally operated their business upon. Capping these 3rd Party fees would help many independently owned restaurants retain a greater portion of their sales allowing them to invest in their employees, businesses, and pay rent/mortgage costs. Restaurants report 3rd Party Fees that range between 15 and 35%. Larger operators – national chains or independent businesses with a high number of locations – can negotiate lower delivery charges – sometime below 15%. Independent single-location restaurants typically pay the highest fees – upwards of 30% on average.

The existing remedies to small independent operators are limited:

1. Many lack the power of scale to negotiate better fees and choosing to forgo food delivery may impact their revenue during the winter months leading to closure.
2. The cost of starting and operating their own delivery service is high (insurance increase to cover employee cars, point of sales adjustments, online ordering software, training, etc.)

Engagement

The Economic Health Office has heard from restaurateurs in one on one meetings and through our business partners meetings (conducted each week) that a cap on 3rd Party Delivery Fees would provide much needed support during this crisis. To validate the extent of this sentiment, EHO has added a few questions to a questionnaire being distributed to restaurants with expanded patio seating. The results of that questionnaire are not available yet and should be in place ahead of Council consideration.

At the request of the individual restaurants, EHO cannot share the names of the operators that have expressed their support for this policy. However, EHO can summarize that the restaurateurs in support have included both local operators with multiple locations (currently reporting a fee of 21%) and local independent single location restaurants. One operator, participated in and supported the ordinance in Denver, as they operate venues in that market. Many restaurants may increase the cost of food for delivery. However, initial outreach suggests that these increases, typically in the range of 5% to 8% does not cover the entire cost of delivery fees. As a result, many restaurants still struggle with covering the cost of the delivery fee and a reasonable margin.

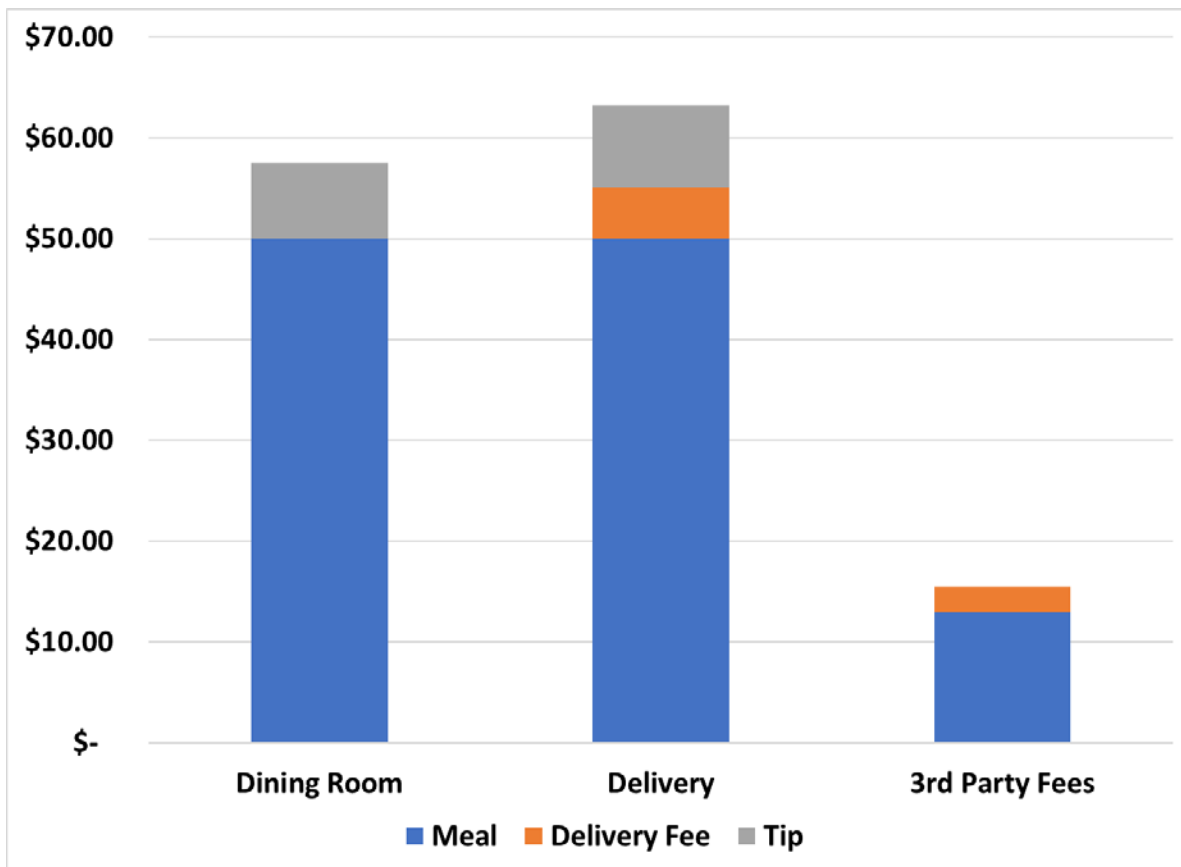
Context

Comparing the Anatomy of a Restaurant Bill

A restaurant delivery bill is comprised of three main components:

1. Charge for meal – Cost of the food ordered by the customer
2. Delivery fee – Charge paid by customer to 3rd Party Delivery Company
3. Tip to Driver – Gratuity paid by the customer to the driver (comparable to tips to a waiter)

Figure 1
Restaurant Bill Comparison

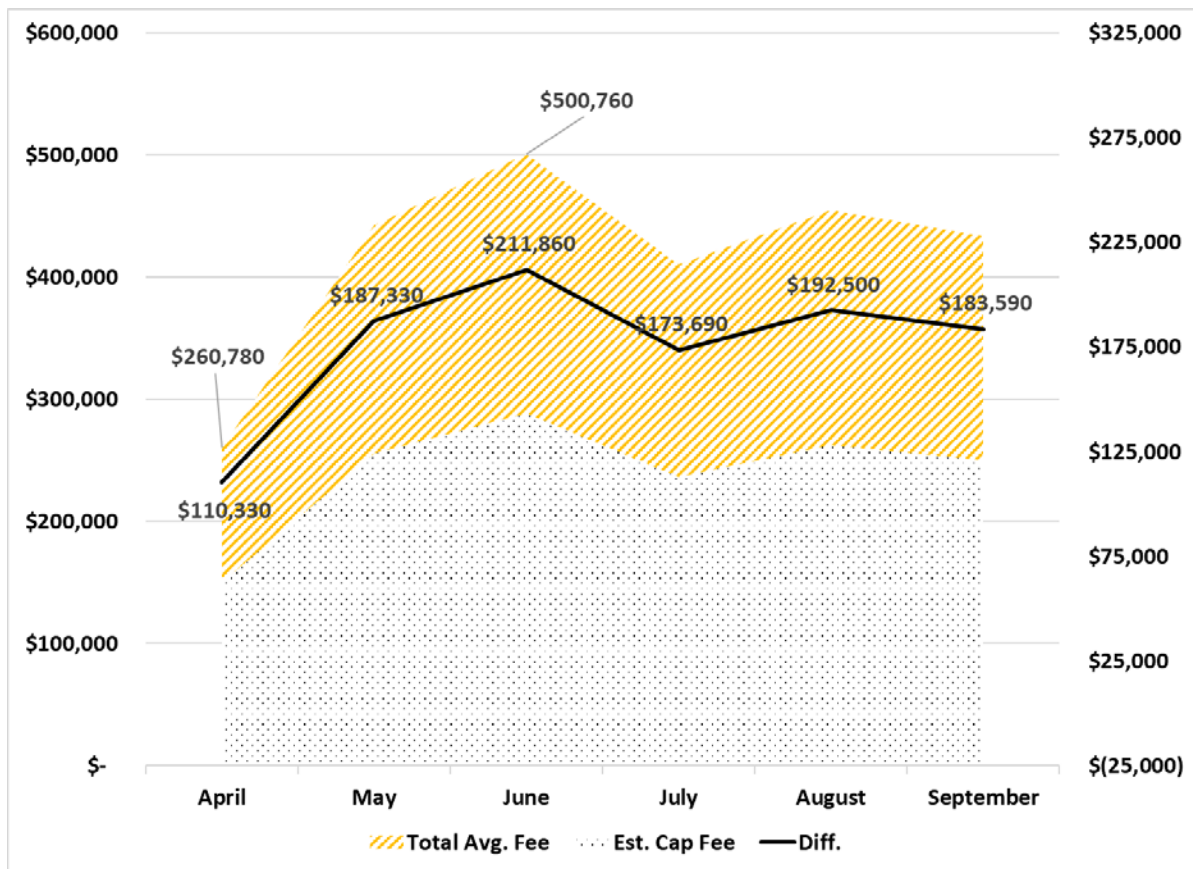


A 3rd Party Delivery Company retains a portion of both Item 1 and 2 above. The restaurant pays a fee to the 3rd Party Delivery Company out of the charge for the meal (Item 1) – this is the 3rd Party Delivery Fee that would be capped by the proposed ordinance. Additionally, the company splits the delivery charge (Item 2) with the driver, often a contractor. Therefore, a restaurant makes less on a delivery sale than a dining room sale. However, current conditions are forcing more and more restaurants to rely on delivery sales to keep their doors open.

3rd Party Delivery Charges

Using sales tax data, a comparison of 3rd Party Delivery Fees can be inferred and shows a steep rise in these fees since the beginning of COVID. The data shows that starting in April estimated 3rd Party fees (assumes an average rate of 26 percent) rose from approximately \$261,000 per month to a height of \$501,000 per month (nearly double). During the warm weather months of July to September (or June to August sales as data is reported one month in arrears) fees have stabilized at an average of approximately \$433,000 per month.

Figure 2
Comparison of 3rd Party Fees (as Collected) vs. Capped
April to September 2020



Capping fees would have increased retained earnings by restaurant operators over an average of \$190,000 per month during this period (May to September). Assuming 3rd Party fees maintain their current level, capping fees could result in approximately \$2.3 million in increased retained earnings for restaurant operators annually.

Estimated Economic Impact

Using the Bureau of Economic Analysis (BEA) Regional Input-Output Modelling System (RIMS II) an estimate of the economic impact from the proposed ordinance can be developed. This estimate evaluates the potential changes from increased restaurant revenues in the community. The impact is provided in four measures:

- **Change in Output** – Includes two components value-added activity (see below) and increase in demand to the local supply chain
- **Change in Earnings** – Change in household income – a subset of the Value-Added impact
- **Change in Employment** – Expected retained or created jobs
- **Value-Added Impact** – Potential net change in Gross Regional Product – represents the ability put money back into businesses and the economy

Table 1
Estimated Economic Impact of Capping 3rd Party Delivery Fees

	Multiplier	Amount
Net Change in Retained Restaurant Revenue		\$ 2,280,000
Change in Output	1.6862	\$ 3,844,536
Change in Earnings	0.4479	\$ 1,021,212
Change in Employment	15.879	36.20
Value-Added Impact	0.9431	\$ 2,150,268

Based on an assumption that approximately \$2.3 million in additional annual revenue would be retained by restaurants operating in Fort Collins, total economic impact of the proposed ordinance would be \$3.9 million in increased annual economic activity (Change in Output). This impact includes \$2.2 million in potential increase to the Gross Regional Product (Value-Added Impact) of which \$1.0 million would be retained by workers as increased household income (Change in Earnings). Finally, the savings to restaurants would allow operators to retain or increase employment by approximately 36 positions or 28 full-time equivalents.

Proposed Ordinance

The proposed ordinance will be based on an ordinance adopted unanimously by the Denver City Council on September 28, 2020 (See **Attachment 1**). Denver developed its ordinance in consultation with the Colorado Restaurant Association (CRA), local restaurateurs, and several of the 3rd party delivery service providers. The highlights of the proposed ordinance include:

1. Cap delivery fee at 15% - marketing fees and other fees charged by 3rd parties through an agreement with the restaurant are not capped
2. Precludes a 3rd party from charging additional fees to the customers to “make-up” the difference between the original fee and the reduced fee, and forbids the 3rd party from taking the difference from the driver’s fee or tip
3. Prohibits 3rd parties from delivering food from a restaurant without an agreement (still happening; especially when a 3rd party gets a lot of searches for a specific restaurant)
4. Starts upon approval by City Council and sunsets at the end of the current emergency (tied to Governor’s executive order on changes to the liquor enforcement law) – designed as a temporary cap to support restaurants during the current crisis

Discussion / Next Steps;

Ken Summers; interesting scenario - is the order placed with the restaurant or with the 3rd party? I assume that restaurants choose to go into a partnership with the 3rd party delivery service - is that correct?

Josh Birks; the orders are placed through the delivery service. One of the issues is that the delivery service may PDF a menu from a restaurant that they do not have a relationship with and display that menu (PDF) to customer to order from - then Grubhub or DoorDash calls the restaurant - that particular practice – forces restaurants to get in relationship that they may not have wanted and forces them to negotiate fees. Restaurants change their menus frequently - the customer is upset with restaurant not the delivery service if menu has changed, etc.

Ken Summers; that does not seem to be fair to a restaurant – to have orders placed through a 3rd party that they do not have an agreement with. How does this impact the market dynamics? Grubhub, DoorDash - is the advantage the restaurant due to the marketing they get from the 3rd party if they enter into a relationship with them? Would there be an opportunity for the 3rd party vendors to negotiate a more favorable contract and be an exclusive provider?

Josh Birks; One of the reasons the 3rd party delivery services have become so popular is the barrier to entry for a restaurant to do their own delivery; they would have to change their business model, their point of sale system, change their menu, increase their liability insurance to cover their delivery drivers – could be very difficult if you are small single entity trying to figure out to get to your food to your customers. Pre Covid delivery / carry out business was in the single digits for most restaurants. Today, they are reporting delivery is 1/3 of their sales, another 1/3 through dining room (with current public health restrictions) and 1/3 from patio dining. One of the challenges is that during the cold months, they will need to rely on delivery as a revenue source but many being individual establishments can't negotiate good terms – so they have to take what they can get to keep revenue coming in. Fees charged by 3rd party delivery services can be as low as 13-14% and as high as 35%. National chains are on the lower end (Burger King has one of the lowest delivery fees). One example - a restaurant here in town with 4-5 locations and the best they could negotiate with Grubhub was 21%.

Ken Summers; The 15% cap is based on what Denver did, correct?

Josh Birks; yes, Denver had several conversations with DoorDash and Grubhub and other 3rd party delivery service providers. Colorado Restaurant Association was also at the table. The Denver city councilwoman who introduced this had several meetings and 15% was the compromise that they landed on.

Ken Summers; this is a tricky area given current restrictions, pandemic challenges. Is the 15% based on the volume of business in Denver? Does the 15% make sense here in Fort Collins based on our volume and number of restaurants? This is unintended consequence of pandemic that we are forcing into the business environment.

Josh Birks; Denver is not the first entity to impose a cap on 3rd party fees; Seattle, Chicago New York, Los Angeles, and other cities did this several months ago. Anecdotally, they didn't see any decrease in use of 3rd party delivery services and the cap didn't have any market share impact, perhaps even an increase and as a result their volume has stayed the same or gone up in these other communities. The cap does not appear to be detrimental to a 3rd party delivery firm. In Denver, they negotiated a temporary time-period on the 15% cap through the end of February 2021, so the cap is not permanent. We can step away once the crisis is over.

Ken Summers; this information is for large metropolitan areas (population of 1M +), what is the apples to apples comparison for a community the size of Fort Collins (173K)? Also, what is the signal point that the pandemic is over?

Darin Atteberry; we will have the opportunity to ask Tom Gonzales (Larimer County Health Director) that question and get his perspective tomorrow night. How are he and his peers evaluating when we move out of a pandemic crisis?

Mayor Troxell; which also relates to when our Emergency ordinances should end

Ross Cunniff; this ordinance proposes – not to the end of pandemic but tied to Governor Polis’ order regarding the end of the liquor delivery law changes.

Josh Birks; correct, the Governor’s order is currently set to expire on October 31, 2021 or some time sooner if they feel it is warranted.

Ross Cunniff; Larimer County is focused on ICU overhead (available hospital / ICU beds) as a key metric. Fort Collins is probably a more lucrative delivery service market than Denver.

- 1) Median income - number of people with salaries above the median income are the market for these services.
- 2) The number of restaurants per capita is higher in Fort Collins than in Denver. It makes a lot of sense to model this ordinance off of Denver’s as they took the time to talk with restaurants, invested resources. We may want to tweak our end date based on what we hear from Tom Gonzales or stick with what Denver did. As a consumer, I would welcome some amount of enforcement, feedback to providers that unsolicited advertisement is not something that I would welcome. I have stopped using DoorDash and Grubhub for this very reason. Usage may go up if people feel they can trust the relationship with the 3rd party delivery services. I think this is a good idea and I support going forward.

Mayor Troxell; Noco Nosh is a local delivery service versus a national service -

Josh Birks; I am by no means an expert but will share what I know. Noco Nosh was started by a collection of local restaurants using a coop model which reduces delivery fees and a dividend is shared back with coop members so participating local restaurants can share in the upside. It was a direct response to these other companies entering the market – Noco Nosh has a strict policy - you have to be a member to have their service. I have not had a chance to talk with NoCo Nosh directly but 15% is probably fairly close to what they are charging.

Mayor Troxell; restaurant participation in a local private sector model which I would prefer to differentiate and support. Why don’t restaurants charge a delivery fee?

Josh Birks; some restaurants do charge a delivery fee - one practice is to raise the price of the food they are selling via delivery – the reality is that most restaurants can’t push their food prices up and still keep their customer base - 5-8% maybe.

Mayor Troxell; isn’t that a way to translate the real costs to the restaurant? I do not expect to pay the same price for delivery or take out. What is the difference between take-out and delivery when you order via a service?

Josh Birks; you are still paying a service charge for the convenience of using the service. I do know when you ask a restaurant 'how can I access your food in the safest possible way'? They respond to come dine on site or place a carry out order directly through us. We handle it through our point of sale system.

Mayor Troxell; what about Yelp - a carrier service does that get up to more than 35%?

Josh Birks; the upper end of these overall fees is 35% - this information is from the Colorado Restaurant Association. I do not have specifics but could ask the Colorado Restaurant Association and circle back.

Mayor Troxell; have you been working with our local restaurants?

Josh Birks; I have talked with a number of them and we also have a weekly meeting business association meeting. We currently have a survey out in the field to restaurants who are using outside dining -asking questions about the upcoming changes to outside dining during the cold months and added a few questions about how much they are paying for a delivery fee, how do you go about doing delivery. Hopefully, we will have some feedback from this survey before coming to Council.

Mayor Troxell; I am in favor of more transparency. Is there a way this could all be more transparent, for example when I saw a 35% fee that cut into the restaurant's menu price - I think tipping is probably way up as well. Does that go back to the restaurant?

Josh Birks; the tipping goes to the driver through the 3rd party. None goes back to the restaurant.

Mayor Troxell; Maybe more transparency could be built into the model - I would feel more comfortable than capping somebody - I would like to bias those delivery services that are supporting our local restaurants. Part of my difficulty in ending with the take-out liquor is that I do not think that will go away. The argument will come up that it was not a big problem so why change it. Capping delivery service fees- I would not want to kneecap some other business in the supply chain. We are seeing the new normal. What is the value proposition and how is it shaking out? Drive through services – I think we are going to see a lot more asks for the same reason. Right now, we do not provide for that on the Harmony corridor. Let' think about this in terms of what we want to accomplish long. Ross and Ken both offered good commentary and thoughts on the issue regarding metro numbers – think about what is applicable here in Fort Collins – Noco Nosh etc.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee feel the proposal is ready for Council consideration?
2. What additional information should be shared with the full Council?

Josh Birks; there are some open questions that need to be answered before bringing this forward for Council consideration. Open questions relate to what should be the appropriate end date? Should probably be something more certain and not necessarily tied to the liquor rules but perhaps tied more to a local level of activity. Provide more information on the market dynamics as it relates to the second question - What does volume look like? What do demographics look like here in Fort Collins compared to other places? Some conversation regarding the cap percentage – should it be the same as Denver or something else? Also have a conversation with Noco Nosh.

Ken Summers; thank you –it will be good to meet with Noco Nosh and other providers – we are thinking of applying the Denver restriction to Fort Collins - if not, why not?

B. 2021 Utility Rates and Fees Adjustments

Lance Smith, Utilities

EXECUTIVE SUMMARY

The revenue requirements to support the 2021 City Manager's Recommended Budget include increasing monthly charges for electric service by 3.0%. While no increase was anticipated during the budget process for water service, the ongoing Cameron Peak Fire will require some investment in water shed protection for which staff is proposing to bring forward the 2.0% rate increase that was anticipated as being needed in 2022 into 2021. The purpose of this discussion is to continue the dialogue with the Council Finance Committee ahead of bringing the appropriate rate Ordinances forward to the full City Council in November.

The Capital Improvement Plans (CIPs) for each of the 4 traditional utility services (electric, water, wastewater, and stormwater) were updated in 2019 ahead of the anticipated 2021-22 Budgeting For Outcomes (BFO) process. These updated plans along with the associated 10-year rate and debt issuance forecasts were presented to the Council Finance Committee ahead of the 2021-22 BFO process initiation at the December 2019 and January 2020 committee meetings. However, with the Covid-19 pandemic the two-year budget process became a one-year process focused on keeping the 2021 operating budgets the same as the mid-year reduced 2020 operating budgets.

The proposed 3.0% electric rate increase in 2021 is being driven by the ongoing effort to increase operating revenues for this utility enterprise while managing operating expenses, both being necessary to generate positive operating income. The significant rate increases to this utility over the past few years have been smoothed by limiting increases to no more than 5.0% annually. Given the 2020 increase was limited to 5%, the excess is included in the proposed 2021 rate adjustment. The cost of service study for the electric utility has been updated for 2021. Some adjustments between rate classes are being suggested for 2021 based on this study update.

Before considering any adjustment to the water service charges, from a residential customer perspective the average net increase to their 4 service utility bill is expected to be \$2.36 per month, or 1.3% more than they are paying in 2020. With a 2.0% increase in water service charges, the average 4 service utility bill would increase by \$3.33 per month, or 1.8%.

Fort Collins Utilities Comparative Residential Monthly Bill				
Utility	2020	2021	\$ Change	% Change
Electric	\$ 78.83	\$ 81.19	\$ 2.36	3.0%
Water	\$ 48.07	\$ 49.03	\$ 0.96	2.0%
Wastewater	\$ 34.25	\$ 34.25	\$ -	0.0%
Stormwater	\$ 21.74	\$ 21.74	\$ -	0.0%
Total Average Bill	\$ 182.89	\$ 186.22	\$ 3.33	1.8%

Bringing the previously anticipated 2022 rate increase for water services forward into 2021 would generate approximately \$600K in 2021 that would offset much of the anticipated water shed mitigation costs associated with the fire.

As part of the City-wide effort to better align development fees, the plant investment fees associated with the 4 utility services are part of the 2021 Fee Update that is being proposed. The increase in these fees for 2021 is a flat 3.0% inflationary adjustment. (This is being presented as part of the 2020 Fee Updates item during this same meeting.)

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee support bringing the 3.0% rate increase in electric monthly charges being proposed forward for consideration by the Mayor and City Council?
2. Does the Council Finance Committee support implementing the rate class level adjustments for electric monthly charges or a flat 3.0% for all rate classes?
3. Does the Council Finance Committee support bringing the 2.0% rate increase in water monthly charges being proposed forward for consideration by the Mayor and City Council?

BACKGROUND/DISCUSSION

The updates to the Strategic Financial Plan for each utility were presented to this Committee ahead of the budget process last Winter. The rate strategy that was developed as part of the Strategic Financial Plans provides for objective rate adjustments based on financial metrics. This strategy is included in the financial modeling for the plan and has served as the basis of the rate projections presented to Council since the 2015-16 BFO process.

Rate Strategy and Smoothing

The following criteria objectively determine when, why and how much rates should be adjusted to maintain the financial health of each utility:

1. Adjust electric rates sufficient to meet Platte River Power Authority wholesale rate adjustments.
2. If the previous 3 years have averaged negative operating income, raise rates next year to the lessor of 5% or the level sufficient to have offset the average operating loss.
3. If debt coverage is less than 2.0, increase rates the lessor of 5% and a level sufficient to raise the debt coverage ratio to 2.1 the next year.
4. If the Available Reserve fund balance is projected to be negative at the end of any year, increase rates the lessor of 5% and an amount sufficient to increase reserves to the minimum required reserve.
5. Add up all of the previous criteria driven rate adjustments and take the lessor of 5% and the sum as the recommended rate adjustment.

By limiting the annual increase to no more than 5.0% in any given utility, the average customer should not see an increase in their utility bill by more than 5% in one year. This constraint results in some smoothing of larger rate increases over 2 or more years. Moreover, because the total utility bill is considered, adjustments in one utility may be less than needed in order to smooth out the overall bill impact. In the 2019-20 Budget cycle, for example, water and wastewater rates were unchanged while electric rates were adjusted up 5.0% in each year while stormwater rates were increased 2.0% in 2019.

Electric Rate Increase

The ten-year rate forecast presented to this Committee last December reflected a 5.0% rate increases in 2019 and 2020 followed by lesser increases in the subsequent years, including a projected 2% rate increase in 2021.

That forecast served as the basis for the 2019 Strategic Financial Plan for the Light & Power Enterprise Fund and the subsequent revenue projections utilized in the development of the 2021 City Manager's Recommended Budget. However, even with the budget reductions, there is now a need to request a 3.0% rate increase for 2021.

The proposed 3.0% rate increase for 2021 is being driven by 2 factors.

1. Wholesale Generation and Transmission costs are increasing
2. There remains a need to increase operating revenues to generate positive operating income for this Enterprise Fund.

Platte River Power Authority (Platte River) is proposing a 1.5% increase to the wholesale rate for 2021, but the impacts to each of the 4 cities varies, with Fort Collins seeing less of an impact than the other cities and is projected to be 0.4% (0.3% retail). The lesser impact is driven largely by the elimination of the premium intermittent energy charge, where Fort Collins has up to this point purchased a higher percentage of renewables than the load share allocation. The increase is also lower due to a more favorable load factor, as compared to Loveland, Longmont, and Estes Park.

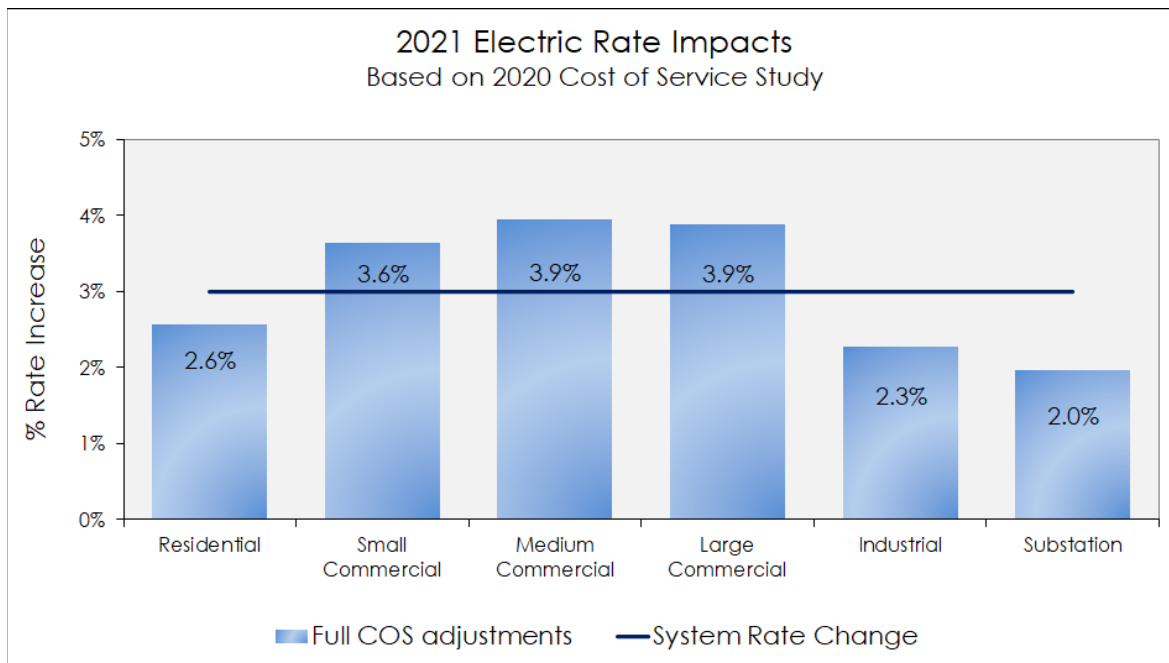
The percentage changes in the wholesale rate will vary, with an overall shift from energy charges to the demand charges. There will also be a 5.7% increase in the owner charge. The largest change is in a lower intermittent energy charge, where the cost will be lower by just over 1 cent per kWh, or 25.1%, and is the result of the lower trending costs of renewables.

The rate increases implemented in the previous budget cycle were necessary to increase operating revenues at a rate faster than operating expenses have been growing. Operating expenses are being actively managed. The proposed 2021 ongoing operations and maintenance (O&M) budget of \$130.8M reflects these efforts. The 5-year growth on O&M is 4.4% (1.1% annualized) higher than the 2017 actual O&M which is below inflation for the same period. The mid-year budget reductions made in 2020 are continued into 2021, as well.

The table below summarizes the implementation of the rate strategy for the electric utility:

Criteria	2019	2020	2021
		1.4%	0.3%
1. PRPA wholesale energy costs	1.4%		0.3%
2. 3 yr ave Operating Income < 0	5.0%	3.9%	2.4%
3. Debt Coverage Ratio < 2.0			
4. Available Reserves less Capital Need < 0			
Sum of Above	6.4%	5.3%	3.0%
5. Lesser of 5.0% or the sum of above	5.0%	5.0%	3.0%
Increase Carried Forward	1.4%	0.3%	----

The electric cost-of-service (COS) model is updated every two years. Rate class adjustments are driven by many factors, including rate class consumption, growth in customer counts, load factors, and the peak demands put on the distribution system. Recent model updates show slightly larger impacts for small to mid-sized commercial classes, and slightly less for residential, industrial, and substation customers. All of the rate class variations are within 1%, up or down, from the 3% baseline.



Green Energy Program

Utilities Green Energy (fcgov.com/greenenergy) program allows customers to subscribe to purchase additional renewable electricity above and beyond that provided in the resource mix provided to all customers. Utilities will be updating several aspects of the program for 2021, including the price, resource mix and outreach materials. The change to the pricing is proposed to happen with the other 2021 electricity rate revisions. The other changes to the program will be completed pending prioritization and scheduling vis-à-vis other Utilities priorities.

Several key resource changes are driving these updates. The new Roundhouse wind and Rawhide Prairie solar projects will both be fully operational next year, joining other existing wind and solar resources from Platte River and dramatically increasing the amount of renewable energy supplied to the cities. In addition, the legacy renewable energy specific wholesale tariff (Tariff 7) will be eliminated in 2021. Fort Collins has historically purchased Tariff 7 energy in amounts greater than the City's load ratio share.

The Green Energy Program provides an option for customers to subscribe to renewable electricity for 100% of their monthly usage or in predetermined kWh blocks. The proposed 2021 retail price premium is 1.6 cents per kWh, a reduction of over 20% from the current 1.9 cents.

The revised product mix will include:

- Local solar energy generated from the Solar Power Purchase Program, which includes over 4.5 megawatts of solar from fifteen systems located in Fort Collins.
- A mix of wind and solar energy from Platte River's renewable resources.

- The overall mix will be approximately one quarter solar and three quarters wind.

The Green Energy premium cost of 1.6 cents per kWh takes into account that customers receive over 50% of their electricity from non-carbon sources from the standard resource mix. In other words, the premium is adjusted by the non-carbon percentage to be accurate when applied to all of the monthly usage for a customer who wants to be 100% renewable. There is also a small amount built into the premium which will be used to develop future investments in the distribution system over time to allow for higher penetration of local renewables.

Green Energy Program Summary			
Program	2021	2020	Notes
Price per kWh	1.6 cents	1.9 cents	20+% decrease
Wind Mix	77%	100%	Colorado and Wyoming sources
Solar	23%	0%	Local and Rawhide locations

Water Rate Increase

The Cameron Peak Fire (CPF) ignited on August 13th, 2020 in the Arapaho and Roosevelt National Forests. Prior to the fire as the budget process was starting a 10-year rate and debt issuance forecast was presented to the Council Finance Committee. The table below shows the 10 year rate and debt issuance forecast for this utility as it stood then. It reflects the anticipated capital investment needs and ongoing operations and maintenance (O&M) expenses associated with the water utility for the next decade without the fire.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	0%	0%	2%	0-2%	0-2%	0-2%	1-3%	1-3%	1-3%	2-4%	2-4%
Debt Issuance					\$55-65M			\$30-35M			
\$209M of capital work is expected to be needed between 2020 and 2030 in addition to the current capital appropriations											

As discussed at the October 13th Work Session, it is anticipated that there will be some costs associated with this fire that will be the obligation of the Water Enterprise Fund. Additional capital investments and O&M expenses resulting from the fire will require either realizing additional revenues through a rate increase, drawing down reserves ahead of the next debt issuance or delaying other capital investments. While it is still not certain what mitigations will be necessary or allowed on the burned areas, the impacts to the water quality will need to be addressed.

Fort Collins is again partnering with other affected water providers to realize both economies of scale in the mitigation efforts and a coordinated request for federal assistance. At this point mitigation costs are estimated to cost between \$8M and \$32M depending on several factors. It is expected that there will be a matching federal grant available for these efforts which would reduce the cost to ratepayers to \$1-4M. If the proposed 2.0% rate increase for 2022 were to be implemented in 2021 this would increase revenues in 2021 by approximately \$600,000.

Ten Year Rate Forecast

The table below shows the rate adjustments that are anticipated to be necessary over the next 10 years to provide adequate revenues to maintain the financial health as determined by the bond rating agencies criteria for assessing new debt issuances.

Rate Forecast 2021-2030										
Enterprise Fund	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
501 - Light & Power	3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%	1-3%
502 - Water	2%	0-2%	0-2%	0-2%	0-2%	1-3%	1-3%	1-3%	2-4%	2-4%
503 - Wastewater	0%	0%	0-2%	0-2%	0-2%	0-2%	0-3%	0-3%	0-3%	0-3%
504 - Stormwater	0%	0%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%	0-2%

Inflationary Adjustment to Development Fees

As part of the alignment in all city-wide fees in recent years that are taken to City Council, it was determined that in alternating years, an inflationary increase would be applied to help smooth out potentially larger increases that have occurred in the past. For 2021, staff is proposing a 3.0% increase to development fees. This percentage is based on the Engineering News Record's average construction cost index for the past 3 years. This change will apply to all charges for residential and commercial development, and become effective January 1, 2021, if approved.

Development Fee	Proposed 2021 Increase
Electric Capacity Fee	3.0%
Water Plant Investment Fee	3.0%
Water Supply Requirement	3.0%
Wastewater Plant Investment Fee	3.0%
Stormwater Development Fee	3.0%

The Excess Water Use surcharge for those commercial customers with an allotment will also increase 3.0% as the Water Supply Requirement increases.

Discussion / Next Steps;

Theresa Connor; to summarize what Lance is going to present. Lance has a discipline of looking long term at our utility rates so we don't have large increases at any time to cover expenses. As part of the City Manager's Budget there is a 3% rate increase for Light & Power that is proposed. Revenues not only to cover PRPA provider expenses but also to be able to invest in our distribution system and the reliability of our system. This is part of our ongoing strategic / financial plan. We are seeking a 2% water rate increase which was proposed to start in 2022 but with the Cameron Peak Fire now impacting both of our water supply watersheds, we will be incurring expenses associated with that. Where we are at – we do not know right now as this fire continues to move. The quality of our service depends on the health of those two watersheds. Once the fire is done, we will work with our partners to invest in those watersheds.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the Council Finance Committee support bringing the 3.0% rate increase in electric monthly charges being proposed forward for consideration by the Mayor and City Council?
2. Does the Council Finance Committee support implementing the rate class level adjustments for electric monthly charges or a flat 3.0% for all rate classes?
3. Does the Council Finance Committee support bringing the 2.0% rate increase in water monthly charges being proposed forward for consideration by the Mayor and City Council?

Lance Smith; we are still very uncertain on our costs due to the fire - our share could be between \$1-4M Water increase being driven by fire mitigation.

Peer cities are looking at large water increases - (Longmont 9%, Loveland 7%)

Residential impact – monthly increase for both water and L&P of \$3.33

Mayor Troxell; I am good on the water increase. I do have some questions on the L&P side.
In a rate class – how does that shake out between energy and demand charges?

Lance Smith; updating the cost of service considers many things including how much customer growth we have had, how those customer classes may have changed their behavior, how much they are contributing to peak. If you are asking me to specifically break that down - I can get that information to you.

We look at each rate class load profile and determine the contribution they are making to peak and that is factored in. This year residential customers are slightly below the 3% which is benefitting from the TOD rate structure which has reduced the residential customers impact on system demand. As a result, that rate class is seeing a better than average reduction. TOD is currently only residential - we could look at expanding that to small commercial.

Mayor Troxell; I see it changing from energy costs to demand charges. The distribution utility supporting more integrated distribution resources and how that is recovered – that is my basic question going forward probably extends beyond what is being suggested here. Energy will be decreasing as a pass-through from Platt River and I think they will be playing a bigger role in integration across the four communities. TOD rate is good business and good economics. To make it more predictable and based on the cost to meet the peak and make every rate class more responsive to their energy use in a way that they are empowered to make those kinds of decisions and utilize other resources they can help manage - an example is Intel has a 4 megawatt back-up system outside their door which can help manage their coincident peak or TOD usage. I guess I don't give the 3% increase my full-throated support but if it is for the things that help us move forward as an electric utility implementing more decreased energy use from the central supply but actually utilize our load center for more distributed energy resources – I am supportive of that. Ultimately at the end of the day we get to higher reliability for Fort Collins utilities as you begin to do distributed energy resources you become less prone to system wide catastrophic failure but also you can decrease costs by working in partnership with distributed energy resources either behind the meter or in front of the meter at our businesses.

Ross Cuniff; I support the water increase as that is critical infrastructure for our water utility and customers. Regarding the L&P rate, the alternatives are a 3% flat across all rate classes or distributed based on cost of service that came out of our study. My preference would be based on the cost of service but that is not hard and fast as I would go along with majority of Council if they preferred the system rate change. The full cost of rate service trying to keep that cost proportional to the impacts would be helpful. I would be interested in more information regarding moving small commercial toward the TOD rate. I do support bigger picture the 3% increase with some nuance on how we distribute that impact across rate / customer classes.

Lance Smith to Councilmember Cunniff – are you recommending that we bring forth two separate L&P rate ordinances for the full Council’s consideration?

ACTION ITEM:

Ross Cunniff; it depends on what Ken has to say but I would bring one forward with the cost of service impacts with a memo to Councilmembers letting them know that this is an alternative asap.

Ken Summers; I am good with L&P increases. I like it being spread over the combination of the fixed base rate and some of the tiered charges. On the water increase, we really do not know what our additional costs are or will be – we are adding 2% this year - is this moving the increase that was proposed for 2022 ahead?

Lance Smith; we are proposing to bring forward that 2022 rate increase. I cannot say we will not come forward with an additional adjustment request in 2022 because we really do not know what our additional mitigation costs are going to be. When we had the 2013 Hyde Park Fire – we brought a rate increase forward and there was an expectation that the rates would come back down. There are long term needs for rate adjustments – I want to be clear that this is not part of that long-term need. This should generate \$600K to help offset some of those mitigation costs.

Ken Summers; reserves for Water Fund - How does that apply to operation costs and anticipated improvements in infrastructure?

Lance Smith; Water Fund reserves are healthy – we have been building them up over the past few years in anticipation of our significant capital improvements coming up; the Halligan Reservoir, some treated water storage that we need to implement at the treatment plant and we need to get more aggressive in replacing our distribution infrastructure. We have been building reserves in anticipation of these major capital investments.

Ken Summers; the increases that have been planned already are to augment the monies needed for capital improvements. Let’s be honest and say we are proposing an additional increase. Let’s not say we are bringing it forward as the 2022 increase needs will still be there. We are proposing a 2% increase which may or may not impact the 2022 planned increase. Let’s do what we need to do but let’s be judicious. I am concerned with the city proceeding with business as usual with things being anything but usual. I want us to be sensitive to that and be careful how we articulate this.

Darin Atteberry; I appreciate your comments Ken – I want to share with you and Ross and Susan that is what motivates us - exactly what you said. Any advice you can give us on how to be more forthright and transparent. I get what you are saying - the staff team was very thoughtful of the existing financial challenges that the community is facing -I am really proud of the responsiveness to some of our lower income rate payers and at some point to get Theresa and Lance to share some of that data with Council Finance and Council. I appreciate the sensitivity - when we put together the recommendation we talked about – do we bring rate increases forward or do we delay - we look at cost of services - this is not a for profit enterprise - we are not trying to bolster revenues. We did come forward with a recommendation for a 0% increase in water for these reasons. There are some capital expenses we need to plan for. The Cameron Peak fire has changed everything for us and it is the reason we are here. We are definitely of the mindset that we are moving forward with Halligan Reservoir and it will be built at some point. We have staff and consulting resources working on that currently. I want you and Ross and Susan to be confident that the team was very mindful about that when we came forward with the recommendations. If we bring this forward and Council says no - I respect that. Right now, we think this is the best way to move forward.

Ross Cunniff; on the water side - has staff modeled the cost of doing \$600K via a debt issuance vs a rate increase? Some sort of analysis

Lance Smith; We did not look at a debt issuance for the \$600K - I do anticipate that we will need to draw some from reserves as we are anticipating mitigation costs of \$1-4M using some reserves

Ken Summers; That is exactly what we need to disclose - This fire - we have the Hyde Park Fire in 2013 which costs us \$1.4M - this increase is not intended to cover all of our costs but only a portion which means we will be dipping into reserves for anything that this rate increase doesn't cover - a very conservative request.

Ross Cunniff; \$3 per month is not a huge increase but many people are running so close - very impactful to folks even though that does not sound like much.

Ken Summers; might be those just above the income qualified for assistance that it impacts the most - will be a lot of discussion around this.

Susan Gutowsky; transparency is always a plus – the quality of our marketing is going to be so essential on this - Consumers are raw about TOD - people come home from a full day of work and they can't use appliances from 5-9 pm - of course they can but not without an increase. We are dealing with many folks who are not happy with TOD. The reasons make sense – I think we need to be cognizant that we are dealing with a public who are already resistant to how their utilities are run.

Theresa Connor; we really appreciate the feedback. CARES act funding – assistance for those who have been impacted – if there is input for us on how to make that more visible please let us know. We see customer facing this challenge in our front lobby everyday - pay bills vs bus- we see them and take this very seriously.

C. 2020 Fee Roadmap

Jennifer Poznanovic, Sr. Revenue & Project Manager

SUBJECT FOR DISCUSSION

220 Fee Roadmap

EXECUTIVE SUMMARY

Coordination of Council approved fees began in 2016 to provide a more holistic view of the total cost impact. Previously, fee updates were presented to Council on an individual basis. After the 2020 fee update, fee phasing will be complete with regular two and four-year cadence updates beginning in 2021.

2020 fee updates include: Building Development fees, Electric Capacity fees, Water Supply Requirement fees, Water, Sewer and Stormwater Plant Investment fees, Capital Expansion fees and Transportation Capital Expansion fees.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does Council Finance Committee support the proposed 2020 roadmap for fee updates?

BACKGROUND/DISCUSSION

Since the fall of October 2016, staff has worked to coordinate the process for updating all new development related fees that require Council approval. This resulted in the completion of two studies, the Capital Expansion

Fee Study dated August 2016 (CEF Study) for the neighborhood park, community park, fire, police and general government capital expansion fees (CEFs) and the Transportation Capital Expansion Fee Study dated April 2017 (TCEF Study) for the transportation capital expansion fee (TCEF).

Development related fees that are approved by Council are CEFs, the TCEF, and five Utility Fees.

Type of Fee	Fee Name
Capital Expansion	Neighborhood Park
Capital Expansion	Community Park
Capital Expansion	Fire
Capital Expansion	Police
Capital Expansion	General Government
Capital Expansion	Transportation
Utility	Water Supply Requirement
Utility	Electric Capacity
Utility	Sewer Plant Investment
Utility	Stormwater Plant Investment
Utility	Water Plant Investment
Building Development	Development Review, Building Permit & Engineering Fees

Previously, fee updates were presented to Council on an individual basis. However, it was determined that updates should occur on a regular two and four-year cadence and fees updates should occur together each year to provide a more holistic view of the impact of any fee increases.

Fee coordination includes a detailed fee study analysis for CEFs, the TCEFs and Development Review/Building Fees every four years. This requires an outside consultant through a request for proposal (RFP) process where data is provided by City staff. Findings by the consultant are also verified by City staff. For Utility Fees, a detailed fee study is planned every two years. These are internal updates by City staff with periodic consultant verification. In the future, fee study analysis will be targeted in the odd year before Budgeting for Outcomes (BFO). In years without an update, an inflation adjustment occurs.

Below is the current fee timeline:

	2016	2017	2018	2019	2020	2021
Capital Expansion Fees		Update	Step II	Step III	Inflation	Update
Transportation CEFs		Update	Step II		Inflation	Update
Electric Capacity Fees		Update		Update	Inflation	Update
Water Supply Requirement		Update		Update	Inflation	Update
Water, Sewer, Stormwater PIFs			Update	Update	Inflation	Update
Building Development Fees					Update	Update
Fee Working Group		Active	Active	Active		

Phase I of the fee updates included CEFs, TCEFs, Electric Capacity Fees, and Raw Water/CIL and were adopted in 2017. Phase II included Wet Utility PIFs and step II of CEFs and TCEFs, which were approved in 2018. Development review and building permit fees were originally included in Phase II but were de-coupled from the 2018 update.

Due to the concern in the development and building community around fee changes, Council asked for a fee working group to be created to foster a better understanding of fees prior to discussing further fee updates. In August of 2017, the Fee Working Group commenced comprised of a balanced group of stakeholders – citizens, business-oriented individuals, City staff and a Council liaison. The Fee Working Group met 14 times and was overall supportive of the fee coordination process and proposed fee updates.

The 2019 phase III update included Development Review fees, Electric Capacity fees, Water Supply Requirement fees, Water, Sewer and Stormwater Plant Investment Fees and Step III of the 2017 Capital Expansion Fees.

2020 fee updates include: Building Development fees, Electric Capacity fees, Water Supply Requirement fees, Water, Sewer and Stormwater Plant Investment fees, Capital Expansion fees and Transportation Capital Expansion fees. All fee updates are inflation only adjustment except for Building Development fees. Building Development fees were planned to update on April 1, 2020; however, due to software (Accela) upgrades and conflicts implementation was delayed. The CPI-U index for Denver-Aurora-Lakewood is used for CEF inflation and the Engineering News Record for TCEFs. Utility fees use a 3-year average of the Engineering News Record Construction Cost Index.

After the 2020 fee update, fee phasing will be complete with regular two and four-year cadence updates beginning in 2021.

Below is the proposed 2020 fee roadmap:

	October	November	1/1/2021
Capital Expansion Fees	CFC	Council	Effective
Transportation CEFs	CFC	Council	Effective
Electric Capacity Fees	CFC	Council	Effective
Water Supply Requirement	CFC	Council	Effective
Water, Sewer, Stormwater PIFs	CFC	Council	Effective
Building Development Fees	CFC	City Manager	Effective

Discussion / Next Steps;

We plan to go to Council in November - all fees would be effective January 1, 2021

Ken Summers; the roadmap is fine and the plan to move forward seems to be on track. Council will look at those fees in 2022 again.

Ross Cunniff; the roadmap makes sense. Is the Fee Working Group on hiatus right now partly due to the pandemic?

Jennifer Poznanovic; the last Fee Working Group went through that whole process for the Building Development Fees. We are currently not planning for a Fee Working Group going forward unless there is direction to do so.

Ross Cunniff; Would the Fee Working Group be reconvened again in 2022? The next Council would need to weigh in on reconvening the Fee Working Group.

Jennifer Poznanovic: I am happy to discuss that with Travis and if needed, we could address that in the next fee update.

	2016	2017	2018	2019	2020	2021
Capital Expansion Fees		Update	Step II	Step III	Inflation	Update
Transportation CEFs		Update	Step II		Inflation	Update
Electric Capacity Fees		Update		Update	Inflation	Update
Water Supply Requirement		Update		Update	Inflation	Update
Water, Sewer, Stormwater PIFs			Update	Update	Inflation	Update
Building Development Fees					Update	Update
Fee Working Group		Active	Active	Active		

Detailed Fee Studies:

- 4 years for CEF, TCEFs & Development fees
- 2 years for Utility fees

In years without updates inflation adjustment occurs

Building Development Fees:

- Approved by City Manager
- Implementation delayed due to software (Accela) Flat fees, Engineering Inspection, and erosion control effective 1/2021
- Building, Tenant Improvements, and Planning will be effective 1/2022

Inflation: CPI-U index for Denver-Aurora-Lakewood for CEFs, Engineering News Record Construction Cost Index for TCEFs & Utility Fees

4

Ken Summers; what kind of inflationary rate? (see slide above)

Jennifer Poznanovic;

Capital Expansion Fees use the Denver/ Aurora / Lakewood CPI-U index which is under 3% on CES

Transportation and Utility Fees use the Engineering News Record Construction Cost Index

Result: Committee supports moving to a First Reading on November 4th.

D. Budget Contingency Planning

Travis Storin, Interim Chief Financial Officer

EXECUTIVE SUMMARY

Sales Tax results through September 2020 show a revenue shortfall of \$10.5M from budget, with additional risks in the coming months due to the economic fallout of COVID-19. The purpose of this agenda item is to describe the staff approach to assessing and responding to continued revenue risks in 2021.

Staff will review year-to-date revenue and expenditures, 2021 budget assumptions and sensitivities, and a framework for budget adjustments if revenue continues to underperform vs. budget.

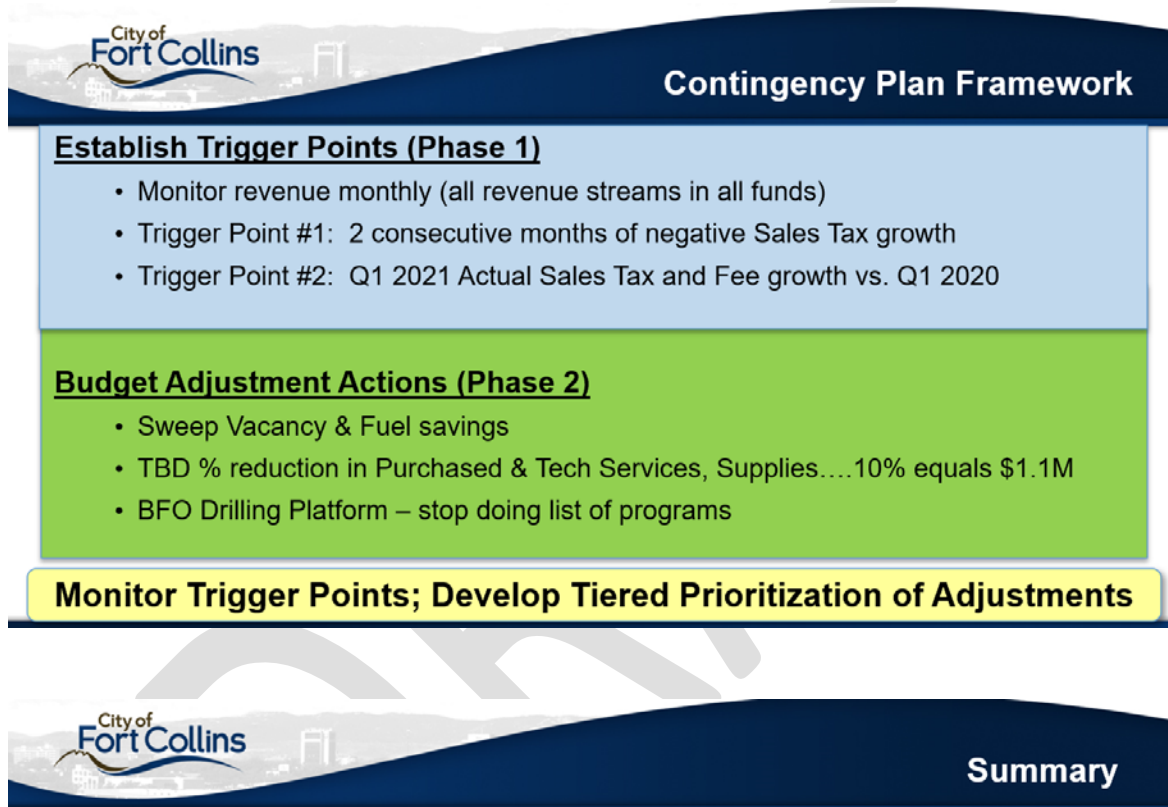
GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

What questions does the Council Finance Committee have about the proposed contingency framework?

BACKGROUND/DISCUSSION

Sales tax is the most significant revenue stream for the governmental functions of the City. In the aftermath of the early stages of the pandemic, staff is currently managing to a shortfall of \$20M in 2020 and \$21M in 2021 vs. the previous budget trajectory.

Historically, the 1st quarter of the year is not a good predictor of annual sales tax revenue; but it will be financially prudent to have a contingency plan that would be implemented upon specified and agreed upon trigger points. The contingency plan being presented to the Council Finance Committee is a framework of the actions that would occur based on those trigger points. If those triggers would occur, specific reductions to programs and other budget line items would be brought back to the Council Finance Committee.



- Sales and Use Tax Revenue has settled into a trend of -5% to -3% after a sharp -22% downturn in April
- GF and Total Expenditures under budget even after frozen appropriations
- No Further Budget Adjustments Necessary in 2020
- Revenue sensitivities project a worst-case downside of \$6M and a best-case upside of \$11M in 2021
- Staff will monitor triggers throughout Q1 2021; ELT is prepared to develop a line-item contingency plan (Phase 2) if needed

Discussion / Next Steps;

We don't have rank ordered programs because we didn't use BFO teams - would require BLT to reconvene

Ken Summers; let's see what plays out - economic forecasting is like the weather

Ross Cunniff; I concur - we don't know what we don't know including how much local, state, and federal government programs will accelerate or hurt. I appreciate the analysis you have done but I don't support spending more out of reserves which would require dipping below policy minimums

Ken Summers; \$26M - that is above the TABOR reserves

Travis Storin; we have TABOR in addition to our 60-day minimum - we would have some flexibility of repaying our 60 day reserve

Kudos to past Councils as they positioned us well. There are many communities utilizing their Tabor reserves. We have flexibility and cushion - not be afraid to utilize in prudent ways

Ross Cunniff; 2021 budget has not dramatically reduced level of service - reserves are not an outcome – this is prudent. If there is upside in 2021 – make best use – apply to 2022 budget - rational and reasonable

Meeting adjourned at 11:50 am

COUNCIL FINANCE COMMITTEE AGENDA ITEM SUMMARY

STAFF: Blaine Dunn, Interim Accounting Director

DATE: November 16, 2020

SUBJECT FOR DISCUSSION: 2020 Financial Policy Review

EXECUTIVE SUMMARY: Once a year a portion of Financial Policies are reviewed and updated as needed. Staff is committed to reviewing each policy no less than every 3 years. Policies up for review this year are:

Financial Management Policy 1 – Budget

Financial Management Policy 2 – Revenue

Financial Management Policy 3 – General

Financial Management Policy 5 – Fund Balance Minimums

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does Council Finance Committee support the changes as recommended?

BACKGROUND/DISCUSSION

Financial Management Policy 1 – Budget: Throughout the policy staff recommends updating the word “citizen” with the word “resident”. There are additional language clean ups throughout the policy. The only sections with major changes are:

- Section *1.1 Overview*
 - Call out for the exception of a one year budget in 2021 and 2022
- Section *1.5(A) Budgeting Control Systems, Budget Transfers*
 -

Financial Management Policy 2 – Revenue: This policy has three sections with recommended changes:

- Section *2.3(C) Fee Policy, Establishment and Modification of Fees and Charges*
 - Updates to this policy reflect the current process used for fees. This includes making changes to reflect the cadence fees are updated, and how often a fee study analysis if performed
- Section *2.4 Sales and Use Tax Distribution*
 - Update tax tables to reflect new taxes effective January 1, 2021
- Section *2.5 Philanthropic Contributions*
 - Currently named *2.5 Private Contributions*, staff recommends changing the name of this section to better align across all policies. Staff also recommends expanding this section to discuss accountability and transparency associated with philanthropic gifts. The changes to this policy align with Financial Policy 52 – *City Give Financial Governance Policy*

Financial Management Policy 3 – General: This policy covers numerous topics that do not warrant their own standalone policy. This policy has four sections with recommended changes:

- Section 3.2 *Medical Insurance and Retirement Plans*
 - Updates include cleaning up language, and updating contribution and vesting terms for the 401(a) and 457 plans.
- Section 3.3 *Fund Organization*
 - Adding language City Code also establishes rules for funds
 - Updating list of funds
- Section 3.4 *Cost Recovery and Fee Setting*
 - Recommend updating the section regarding charitable giving to be consistent with the City Give policies

Financial Management Policy 5 – Fund Balance Minimums: This policy has two very minor changes:

- Section 5.1 *Governmental Funds and Fund Balance*
 - Correct wording under fund types for the type of funds able to carry an unassigned balance
- Section 5.2 *Proprietary Fund and Working Capital*
 - Correct a section reference
- Section 5.3 *Minimum Balances*
 - Clarify the 60-day Liquidity Goal is not a restricted balance but an emergency reserve

ATTACHMENTS

- Presentation Slides
- Policy 1 – Budget, with changes highlighted
- Policy 1 – Budget, clean version
- Policy 2 – Revenue, with changes highlighted
- Policy 2 – Revenue, clean version
- Policy 3 – General, with changes highlighted
- Policy 3 – General, clean version
- Policy 5 – Fund Balance Minimums, with changes highlighted
- Policy 5 – Fund Balance Minimums, clean version



Financial Management Policies Review
Blaine Dunn, Interim Accounting Director

Direction Sought

- Does Council Finance Committee support the changes as recommended?

Financial Management Policies

Policy #	Policy Name	Last CFC Review Date	Next CFC Review Date
1	Budget	November 2017	Today
2	Revenue	November 2016	Today
3	General	November 2017	Today
5	Fund Balance	November 2017	Today
7	Debt	November 2016	November 2021
8	Investments	November 2017	November 2021

Policy 1 - Budget

Sections:

1. Overview (call out for one-year budget in 2021)
2. Principles for Budget Planning
3. Scope
4. Roles & Responsibilities
5. Budgeting Control System (clean up for budget control within a fund)
6. Balanced Budget Definition
7. Contingency Planning for Unanticipated Revenue Shortfalls

1.5 Budgeting Control System, A. Budget Transfers *Within a Fund*

- Clarification City Manager may transfer unexpended and unencumbered amounts within the same fund
- Clarifying what the CFO has authority to approve on departmental expenses greater than budget

Policy 2 - Revenue

Sections:

1. Limitations under TABOR (Taxpayer Bill of Rights) (language clean up)
2. Revenue Review, Objectives and Monitoring
3. Fee Policy (changes to establishment and modification of fees)
4. Sales and Use Tax Distribution (updated with new taxes effective January 1, 2021)
5. ~~Philanthropic~~ Private Contributions (change of section name, expanding of policy)

2.3 Fee Policy, C. Establishment and Modification of Fees and Charges

- Policy updated for consistency with Citywide Fee process
 - Changes reflect changes made over last several years around fees and cadence they are updated
 - Reflects changes to how often fee study analysis is performed

2.5 Philanthropic Contributions

- Name change aligns to other policies across City
 - Updates align with Financial Policy 52 – *City Give Financial Governance*
 - Expands section to discuss accountability and transparency

Policy 3 - General

Sections:

1. Administrative Charges
2. Medical Insurance and Retirement Plans (clarifying language, updates to 401(a) and 457 plans)
3. Fund Organization (added language City code also establishes fund rules, updating list of funds)
4. Cost Recovery and Fee Setting (editing section on charitable gifts and donations)
5. Capital Improvement Program
6. Using State Allocation of Private Activity Bonds

3.4 Cost Recovery and Fee Setting, C. Cultural Services & Facilities Fund Fee Policy

- Updated to reflect City Give policies around Charitable Gifts and Donations

Policy 5 – Fund Balance Minimums

Sections:

1. Governmental Funds and Fund Balance (correct fund types for unassigned funds)
2. Proprietary Fund and Working Capital (correct section reference)
3. Minimum Balances (change wording from Restricted Balance to Emergency Reserves)
4. Below Minimum

Next Steps

- Bring Policy changes to City Council for consideration as soon as practical
- These specific policies will be reviewed again no later than 2023

- Does Council Finance Committee support the changes as recommended?

Budget Policy

Issue Date:

~~11/21/17~~10/19/20

Version: ~~4~~3

Issued by: Budget
Director

Objective:

Governments allocate scarce resources to programs and services through the budget process. As a result, it is one of the most important activities undertaken by governments. The purpose of this policy is to establish parameters and provide guidance governing the budget for the City of Fort Collins (City).

Applicability:

This budget policy applies to all funds and Service Areas of the City.

Authorized by:

City Council Resolution 2014-058, 2017-101

1.1 Overview

The Fort Collins City Charter establishes time limits and the essential content of the City Manager's proposed budget, however the budget preparation process is not prescribed, but is developed by the City Manager with input from the City Council.

The fiscal year of the City is the calendar year. The City may adopt budgets for a budget term of one fiscal year or more. After the Charter amendment in 1997 allowing the City Council to set by ordinance a budget term to be more than one fiscal year, the Council has adopted two-year budgets that correspond with the election cycle, with the recent exception of having a one-year budget for fiscal years 2021 and 2022 due to the COVID pandemic.

The budget is a 2-year plan by which the City Council sets the financial and operational priorities for the City - through the budget, services are implemented. The budget along with the annual appropriation ordinance provides the basis for the control of expenditures. The State Constitution and the City Charter provide the basic legal requirements and time-lines for the process. Council goals, ordinances and resolutions provide additional direction and respond to the needs of the community.

1.2 Principles for Budget Planning

The City provides a wide variety of services to the residents of the community. It is in the power of the City Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community (~~City~~ Charter Article II, Section 5 (c)).

In 2005 the City Council, on recommendation from the City ~~m~~Manager, endorsed the Budgeting for Outcomes (BFO) budget process. At a high level, the budgeting for outcomes methodology can be summarized as:

1. *Determine how much money is available.* The budget should be built on expected revenues. This would include base revenues, any new revenue sources, and the potential use of fund balance.
2. *Prioritize results.* The results or outcomes that matter most to citizens-residents should be defined. Elected leaders should determine what programs are most important to their constituents.
3. *Allocate resources among high priority results.* The allocations should be made in a fair and objective manner.
4. *Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.*
5. *Budget available dollars to the most significant programs and activities.* The objective is to maximize the benefit of the available resources.
6. *Set measures of monthly progress, monitor, and close the feedback loop.* These measures should assign monthly budget, spell out the expected results and outcomes and how they will be measured.
7. *Check what actually happened.* This involves using performance measures to compare actual versus budgeted results, and financial measures for budget versus actual results on a monthly basis.
8. *Communicate performance results.* Internal and external stakeholders should be informed of the results in an understandable format.

At that time, the City Council also identified the key outcomes it believed should be used in the new budget process. In addition, the 2005-2007 Policy Agenda sets forth the implementation and continued improvement of the collaborative budget process, aligning spending with desired outcomes.

In 2012, the City Council passed resolution 2012-076 promoting improved results through performance measures and data-driven decision making. In reference to the budget, an outcome-based performance measurement system will help ensure that available resources are used to achieve excellent results at low cost to the taxpayers and will enhance the citizen's resident's understanding of the City and the services it provides.

1.3 Scope

A. Comprehensiveness

The proposed budget shall provide a complete financial plan for each fund of the ~~e~~City and shall include appropriate financial statements for each type of fund showing comparative figures for the last completed fiscal year, comparative figures for the current year, and the City Manager's recommendations for the ensuing budget term (City Charter Article V, Part 1, Section 2). In addition, the City of Fort Collins Budget Document may include items such as:

- 1) Statement of organization-wide strategic goals.
- 2) A description of the budget process, including a timeline.
- 3) A Glossary of Budget Terms.
- 4) A City of Fort Collins organizational chart.
- 5) Letter from the City Manager.
- 6) Budget Overview which may include:
 - a) The economic outlook;
 - b) Revenue assumptions;
 - c) Summary of use of reserves;
 - d) Budget priorities and highlights.
- 7) Copy of signed appropriation ordinance and a schedule of 2nd year proposed appropriations.
- 8) Revenue, expense and changes in fund balance summaries.
- 9) Summary of employee full-time equivalent staffing by service area and department.
- 10) A section for each of the key strategic Outcomes, which may include:
 - a) Information indicating how the Offers in the Outcome are funded, by fund;
 - b) Major key purchases;
 - c) Major enhancements purchased;
 - d) Detailed listing of all offers funded and unfunded;
 - e) Strategic objectives of the Outcome.
- 11) Fund Statements.
- 12) Overview of debt position.
- 13) Current Capital Improvement Plan.
- 14) Summary of changes to user fees.
- 15) Summary of property tax mill levy and assessments.

The annual appropriation ordinance shall also include the levy in mills, as fixed by the Council, upon each dollar of the assessed valuation of all taxable property within the city, such levy representing the amount of taxes for ~~e~~City purposes necessary to provide, during the ensuing fiscal year, for all properly authorized expenditures to be incurred by the ~~e~~City, including interest and principal of general obligation bonds. If the Council fails in any year to make said tax levy as above provided, then the rate last fixed shall be the levy fixed for the ensuing fiscal year and the Financial Officer shall so certify (~~City~~ Charter Article V, ~~Part 1,~~ ~~s~~Section 5).

B. Budget Form

The City of Fort Collins uses the Budgeting For Outcomes model to create the City budget. A new budget is designed from the ground up based on the results desired in each of the Outcomes defined by the City. The BFO budget-building process includes four steps:

- 1) Determine how much revenue will be available (the price people pay);
- 2) Determine the priorities of the City and its ~~citizens~~ residents and the results to be achieved;
- 3) Allocate the revenue needed to achieve the desired results;
- 4) Determine which budget items will best produce the desired results at the price allocated.

C. Basis of Budgeting

All budgetary procedures conform to the City Charter and Code, state regulations and to generally accepted accounting principles. The basis or principle used for budgeting is the same as that used for accounting, with a few exceptions, and varies according to the fund type.

Governmental Funds use the modified-accrual basis of accounting. This means that revenues are recognized when they are earned, measurable and available. Expenditures are recognized in the period that liabilities are due and payable. The budgetary basis is the same and is used in the General Fund, Special Revenue and Debt Service Funds, and Capital Project Funds.

Proprietary and Fiduciary Funds use the full accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when liabilities are incurred. However, the budgetary basis in these funds is primarily based on the modified-accrual approach. Instead of authorizing budget for depreciation of capital assets, the budget measures and appropriates cash outflows for capital acquisition and construction, which is a modified-accrual approach. In full accrual based accounting debt proceeds are recorded as liabilities rather than a revenue (funding source). For these reasons, a reconciliation and adjustment is made on these fund statements to show the difference between the budgetary basis and the accounting basis.

D. Budget Calendar

The fiscal and accounting year shall be the same as the calendar year. "Budget term" shall mean the fiscal year(s) for which any budget is adopted and in which it is to be administered. Council shall set by ordinance the term for which it shall adopt budgets ~~in accordance with this Article~~ (City Charter Article V, ~~Part 1, s~~Section 1).

On or before the first Monday in September, commencing in 2010 and every other year thereafter, the City Manager shall file with the City Clerk a proposed budget for the City for the ensuing *two-year term* (City Charter Article V, ~~Part 1, s~~Section 2). The Council shall, within ten (10) days after the filing of said proposed budget with the City Clerk, set a time certain for public hearing and cause notice of such public hearing to be given by publication. At the

hearing, all persons may appear and comment on any or all items and estimates in the proposed budget. Upon completion of the public hearing the Council may revise the budget estimates (~~City~~ Charter Article V, ~~Part 1, s~~Section 3).

After said public hearing and before the last day of November preceding the budget term, the Council shall adopt the budget for the ensuing term. The adoption of the budget shall be by ordinance. Before the last day of November of each fiscal year, the Council shall appropriate such sums of money as it deems necessary to defray all expenditures of the ~~e~~City during the ensuing fiscal year. The appropriation of funds shall be accomplished by passage of the annual appropriation ordinance. Such appropriation of funds shall be based upon the budget as approved by the Council but need not be itemized further than by fund with the exception of capital projects and federal or state grants which shall be summarized by individual project or grant (~~City~~ Charter Article V, ~~Part 1, s~~Section 4).

Appropriations for each year of the two-year budget will be approved by the City Council annually. Appropriations for the 2nd year of the biannual budget are adopted during the budget revision process. That process allows for adjustments to the originally adopted biennial budget that address new Council priorities or support changing needs based on economic conditions. The City Manager may present any budget adjustment recommendations to the City Council in Work Sessions and then Council may amend the budget and, as required by the ~~State and~~ City Charter, appropriate or authorize expenditures for the coming fiscal year.

1.4 Roles and Responsibilities

All powers of the ~~e~~City and the determination of all matters of policy ~~shall be~~are vested in the Council except as otherwise provided by the Charter. Without limitation of the foregoing, the Council ~~shall have~~has the power to adopt the City's budget ~~of the city~~.

The City Manager ~~shall be~~is responsible to the Council for the proper administration of all affairs of the City and to that end ~~shall have~~has the power and ~~be~~is required to prepare the budget and submit it to the Council and be responsible for its administration after adoption.

The City Manager and Chief Financial Officer, along with the other executive directors, known as the Budget Lead Team (BLT), develop the guidelines, consistent with the policies, to be used for budget preparation. During the development of the budget, various department and division representatives may be called upon to provide their expertise.

From April through June, City staff from all departments and divisions prepares the Offers (budget requests) for inclusion in the budget.

1.5 Budgeting Control System

No appropriation ~~shall~~ may be made by the Council which exceeds the revenues, reserves or other funds anticipated or available at the time of the appropriation, except for emergency expenses incurred by reason of a casualty, accident or unforeseen contingency arising after the passage of the annual appropriation ordinance (~~City~~ Charter Article V, ~~Part I~~, Section 8 (a)).

Control of expenditures is exercised at the fund level. Fund managers are responsible for all expenditures made against appropriations within their fund and can allocate available resources within the fund.

All appropriations unexpended or unencumbered at the end of the fiscal year *shall lapse* to the applicable general or special fund, except for:

- appropriations for capital projects ~~which shall~~ do not lapse until the completion of the capital project; and
- federal or state grants ~~which shall~~ do not lapse until the expiration of the federal or state grant (~~City~~ Charter Article V, ~~Part I~~, Section 11).

A. Budget Transfers

Between Funds or Capital Projects

During the fiscal year, the Council may, by ordinance, upon the recommendation of the City Manager, transfer any unexpended and unencumbered appropriated amount or portion thereof from one fund or capital project account to another fund or capital project account provided that:

- 1) the purpose for which the transferred funds are to be expended remains unchanged;
- 2) the purpose for which the funds were initially appropriated no longer exists; or
- 3) the proposed transfer is from a fund or capital project account in which the amount appropriated exceeds the amount needed to accomplish the purpose specified in the appropriation ordinance (~~City~~ Charter Article V, ~~Part I~~, Section 10 (b)).

Within a Fund

Budget control is maintained at the departmental level. The City Manager may, during the fiscal year, transfer any unexpended and unencumbered appropriated amount within the same fund (Charter Article V, Section 10(a)). The Chief Financial Officer also has the authority to approve departmental expenses greater than the budget for that department so long as the overall expenses in the fund serving that department are less than the budgeted amount for the fund within a fund. In no case may the total expenditures of a particular fund exceed that which is appropriated by the City Council (~~City~~ Charter Article V, ~~Part I~~, Section ~~10-8~~ (ab)).

B. Applicable Amendments to the Budget

Budget Increases

There generally are four opportunities during the fiscal year for supplemental additions to the current year annual appropriation approved by Council:

- 1) The first is through the encumbrance carry-forward process whereby approved purchase orders that cannot be executed prior to the end of the fiscal year will have available budget carried forward into the new year.
- 2) The second is usually adopted in March/April to re-appropriate funds from the previous year's ending balance for projects or obligations that were approved but not completed during that year.
- 3) The third opportunity in the 2nd half of the year is used to fine-tune (clean-up) the current fiscal year for previously unforeseen events. In addition, if revenue is received during the fiscal year from a source that was not anticipated at the time of budget adoption or appropriation for the fiscal year, such as grants or implementation of a new fee, Council may appropriate that unanticipated revenue for expenditure when received anytime during the year.
- 4) Lastly, the Council, upon recommendation of the City Manager, may make supplemental appropriations by ordinance at any time during the fiscal year; provided, however, that the total amount of such supplemental appropriations, in combination with all previous appropriations for that fiscal year, shall not exceed the then current estimate of actual and anticipated revenues to be received by the city during the fiscal year. This provision shall not prevent the Council from appropriating by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated (City Charter Article V, ~~Part I~~, Section 9).

Budget Decreases/Frozen Appropriations

The budget may be decreased below adopted appropriations during the fiscal year due to changes in service demand, changes in economic conditions, and/or changes in Council goals. Each service area is responsible for developing a plan to reduce appropriations, which will be ready for implementation should the need arise. If the City Manager directs budget reductions, Council will be informed and the appropriations will be "set aside" through administrative action. While the appropriation amount is not changed, expenditures shall not exceed the reduced amount recommended by the City Manager.

C. Order of Funding when Multiple Funding Sources Available

Sometimes a given project or program has multiple sources of funding available. Examples of such projects include but are not limited to grant funded projects, jointly funded

projects/programs between governmental and proprietary funds, or projects/programs where both dedicated tax and/or fee revenues and General Fund tax revenues are available.

Unless stated otherwise within the authorizing ordinance, budget offer, or a contractual agreement, funding sources will be applied in the order of most-constrained to least-constrained in the judgment of City staff. For example, a project jointly funded by the General Fund and the Natural Areas Fund would first fund project spending using all available and appropriated Natural Areas revenues prior to spending appropriated General Fund revenues. This is in an effort to maximize the benefit of available sources in accordance with the principles described in section 1.2 above.

1.6 Balanced Budget Definition

All funds are required to balance. As such, total anticipated revenues must equal the sum of budgeted expenditures for each fund. Revenues are derived from two sources: current revenue charges and unallocated reserves carried forward from prior years.

1.7 Contingency Planning for Unanticipated Revenue Shortfalls

During times when the City experiences significant unanticipated revenue shortfalls, a contingency plan will be developed that outlines the necessary steps to align expenditures to meet the actual revenue received. The contingency plan will target the funds being impacted by the revenue shortfall. In general, the priority order of the steps in our contingency methodology are:

- Align ongoing expenditures with anticipated ongoing revenue
- Sweep vacancy savings and non-service related savings such as fuel or utilities if under budget
- If a Contingency Reserve has been established, utilize a portion of that reserve
- Develop a stop doing list utilizing the drilling platform prioritization.
- At a Service Area level, reduce expenditures related to
 - discretionary expenditures
 - new hires/vacancies (postponement of posting positions)
 - travel and training
 - reduced levels of support to programs

Budget Policy

Issue Date: 11/21/17

Version: 3

Issued by: Budget
Director

Objective:

Governments allocate scarce resources to programs and services through the budget process. As a result, it is one of the most important activities undertaken by governments. The purpose of this policy is to establish parameters and provide guidance governing the budget for the City of Fort Collins (City).

Applicability:

This budget policy applies to all funds and Service Areas of the City.

Authorized by:

City Council Resolution 2014-058, 2017-101

1.1 Overview

The Fort Collins City Charter establishes time limits and the essential content of the City Manager's proposed budget, however the budget preparation process is not prescribed, but is developed by the City Manager with input from the City Council.

The fiscal year of the City is the calendar year. The City may adopt budgets for a budget term of one fiscal year or more. After the Charter amendment in 1997 allowing the budget term to be more than one fiscal year, the Council has adopted two-year budgets that correspond with the election cycle.

The budget is a 2-year plan by which the City Council sets the financial and operational priorities for the City - through the budget, services are implemented. The budget along with the annual appropriation ordinance provides the basis for the control of expenditures. The State Constitution and the City Charter provide the basic legal requirements and time lines for the process. Council goals, ordinances and resolutions provide additional direction and respond to the needs of the community.

1.2 Principles for Budget Planning

The City provides a wide variety of services to the residents of the community. It is in the power of the City Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community (City Charter Article II, Section 5 (c)).

In 2005 the City Council, on recommendation from the City manager, endorsed the Budgeting for Outcomes budget process. At a high level, the budgeting for outcomes methodology can be summarized as:

1. *Determine how much money is available.* The budget should be built on expected revenues. This would include base revenues, any new revenue sources, and the potential use of fund balance.
2. *Prioritize results.* The results or outcomes that matter most to citizens should be defined. Elected leaders should determine what programs are most important to their constituents.
3. *Allocate resources among high priority results.* The allocations should be made in a fair and objective manner.
4. *Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.*
5. *Budget available dollars to the most significant programs and activities.* The objective is to maximize the benefit of the available resources.
6. *Set measures of monthly progress, monitor, and close the feedback loop.* These measures should assign monthly budget, spell out the expected results and outcomes and how they will be measured.
7. *Check what actually happened.* This involves using performance measures to compare actual versus budgeted results, and financial measures for budget versus actual results on a monthly basis.
8. *Communicate performance results.* Internal and external stakeholders should be informed of the results in an understandable format.

At that time, the City Council also identified the key outcomes it believed should be used in the new budget process. In addition, the 2005-2007 Policy Agenda sets forth the implementation and continued improvement of the collaborative budget process, aligning spending with desired outcomes.

In 2012, the City Council passed resolution 2012-076 promoting improved results through performance measures and data-driven decision making. In reference to the budget, an outcome-based performance measurement system will help ensure that available resources are used to achieve excellent results at low cost to the taxpayers and will enhance the citizen's understanding of the City and the services it provides.

1.3 Scope

A. Comprehensiveness

The proposed budget shall provide a complete financial plan for each fund of the city and shall include appropriate financial statements for each type of fund showing comparative figures for the last completed fiscal year, comparative figures for the current year, and the

City Manager's recommendations for the ensuing budget term (City Charter Article V, Part 1, Section 2). In addition, the City of Fort Collins Budget Document may include items such as:

- 1) Statement of organization-wide strategic goals.
- 2) A description of the budget process, including a timeline.
- 3) A Glossary of Budget Terms.
- 4) A City of Fort Collins organizational chart.
- 5) Letter from the City Manager.
- 6) Budget Overview which may include:
 - a) The economic outlook;
 - b) Revenue assumptions;
 - c) Summary of use of reserves;
 - d) Budget priorities and highlights.
- 7) Copy of signed appropriation ordinance and a schedule of 2nd year proposed appropriations.
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- 10) A section for each of the key strategic Outcomes, which may include:
 - a) Information indicating how the Offers in the Outcome are funded, by fund;
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- 11) Fund Statements.
- 12) Overview of debt position.
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- 14) Summary of changes to user fees.
- 15) Summary of property tax mill levy and assessments.

The annual appropriation ordinance shall also include the levy in mills, as fixed by the Council, upon each dollar of the assessed valuation of all taxable property within the city, such levy representing the amount of taxes for city purposes necessary to provide, during the ensuing fiscal year, for all properly authorized expenditures to be incurred by the city, including interest and principal of general obligation bonds. If the Council fails in any year to make said tax levy as above provided, then the rate last fixed shall be the levy fixed for the ensuing fiscal year and the Financial Officer shall so certify (City Charter Article V, Part 1, section 5).

B. Budget Form

The City of Fort Collins uses the Budgeting For Outcomes model to create the City budget. A new budget is designed from the ground up based on the results desired in each of the Outcomes defined by the City. The BFO budget-building process includes four steps:

- 1) Determine how much revenue will be available (the price people pay);
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- 4) Determine which budget items will best produce the desired results at the price allocated.

C. Basis of Budgeting

All budgetary procedures conform to state regulations and to generally accepted accounting principles. The basis or principle used for budgeting is the same as that used for accounting, with a few exceptions, and varies according to the fund type.

Governmental Funds use the modified-accrual basis of accounting. This means that revenues are recognized when they are earned, measurable and available. Expenditures are recognized in the period that liabilities are due and payable. The budgetary basis is the same and is used in the General Fund, Special Revenue and Debt Service Funds, and Capital Project Funds.

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D. Budget Calendar

The fiscal and accounting year shall be the same as the calendar year. "Budget term" shall mean the fiscal year(s) for which any budget is adopted and in which it is to be administered. Council shall set by ordinance the term for which it shall adopt budgets in accordance with this Article (City Charter Article V, Part 1, section 1).

On or before the first Monday in September, commencing in 2010 and every other year thereafter, the City Manager shall file with the City Clerk a proposed budget for the City for the ensuing *two-year term* (City Charter Article V, Part 1, section 2). The Council shall, within ten (10) days after the filing of said proposed budget with the City Clerk, set a time certain for public hearing and cause notice of such public hearing to be given by publication. At the hearing, all persons may appear and comment on any or all items and estimates in the proposed budget. Upon completion of the public hearing the Council may revise the budget estimates (City Charter Article V, Part 1, section 3).

After said public hearing and before the last day of November preceding the budget term, the Council shall adopt the budget for the ensuing term. The adoption of the budget shall be by ordinance. Before the last day of November of each fiscal year, the Council shall appropriate such sums of money as it deems necessary to defray all expenditures of the city during the ensuing fiscal year. The appropriation of funds shall be accomplished by passage of the annual appropriation ordinance. Such appropriation of funds shall be based upon the budget as approved by the Council but need not be itemized further than by fund with the exception of capital projects and federal or state grants which shall be summarized by individual project or grant (City Charter Article V, Part 1, section 4).

Appropriations for each year of the two-year budget will be approved by the City Council annually. Appropriations for the 2nd year of the biannual budget are adopted during the budget revision process. That process allows for adjustments to the originally adopted biennial budget that address new Council priorities or support changing needs based on economic conditions. The City Manager may present any budget adjustment recommendations to the City Council in Work Sessions and then Council may amend the budget and, as required by the State and City Charter, appropriate or authorize expenditures for the coming fiscal year.

1.4 Roles and Responsibilities

All powers of the city and the determination of all matters of policy shall be vested in the Council except as otherwise provided by the Charter. Without limitation of the foregoing, the Council shall have power to adopt the budget of the city.

The City Manager shall be responsible to the Council for the proper administration of all affairs of the City and to that end shall have power and be required to prepare the budget and submit it to the Council and be responsible for its administration after adoption.

The City Manager and Chief Financial Officer, along with the other executive directors, known as the Budget Lead Team (BLT), develop the guidelines, consistent with the policies, to be used for budget preparation. During the development of the budget, various department and division representatives may be called upon to provide their expertise.

From April through June, City staff from all departments and divisions prepares the Offers (budget requests) for inclusion in the budget.

1.5 Budgeting Control System

No appropriation shall be made by the Council which exceeds the revenues, reserves or other funds anticipated or available at the time of the appropriation, except for emergency expenses incurred by reason of a casualty, accident or unforeseen contingency arising after the passage of the annual appropriation ordinance (City Charter Article V, Part I, Section 8 (a)).

Control of expenditures is exercised at the fund level. Fund managers are responsible for all expenditures made against appropriations within their fund and can allocate available resources within the fund.

All appropriations unexpended or unencumbered at the end of the fiscal year *shall lapse* to the applicable general or special fund, except for:

- appropriations for capital projects which shall not lapse until the completion of the capital project; and
- federal or state grants which shall not lapse until the expiration of the federal or state grant (City Charter Article V, Part I, Section 11).

A. Budget Transfers

Between Funds or Capital Projects

During the fiscal year, the Council may, by ordinance, upon the recommendation of the City Manager, transfer any unexpended and unencumbered appropriated amount or portion thereof from one fund or capital project account to another fund or capital project account provided that:

- 1) the purpose for which the transferred funds are to be expended remains unchanged;
- 2) the purpose for which the funds were initially appropriated no longer exists; or
- 3) the proposed transfer is from a fund or capital project account in which the amount appropriated exceeds the amount needed to accomplish the purpose specified in the appropriation ordinance (City Charter Article V, Part I, Section 10 (b)).

Within a Fund

Budget control is maintained at the departmental level. The Chief Financial Officer has the authority to approve departmental expenses greater than budget so long as expenses are less than budget within a fund. In no case may the total expenditures of a particular fund exceed that which is appropriated by the City Council (City Charter Article V, Part I, Section 10 (a)).

B. Applicable Amendments to the Budget

Budget Increases

There generally are four opportunities during the fiscal year for supplemental additions to the current year annual appropriation approved by Council:

- 1) The first is through the encumbrance carry-forward process whereby approved purchase orders that cannot be executed prior to the end of the fiscal year will have available budget carried forward into the new year.

- 2) The second is usually adopted in March/April to re-appropriate funds from the previous year's ending balance for projects or obligations that were approved but not completed during that year.
- 3) The third opportunity in the 2nd half of the year is used to fine-tune (clean-up) the current fiscal year for previously unforeseen events. In addition, if revenue is received during the fiscal year from a source that was not anticipated at the time of budget adoption or appropriation for the fiscal year, such as grants or implementation of a new fee, Council may appropriate that unanticipated revenue for expenditure when received anytime during the year.
- 4) Lastly, the Council, upon recommendation of the City Manager, may make supplemental appropriations by ordinance at any time during the fiscal year; provided, however, that the total amount of such supplemental appropriations, in combination with all previous appropriations for that fiscal year, shall not exceed the then current estimate of actual and anticipated revenues to be received by the city during the fiscal year. This provision shall not prevent the Council from appropriating by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated (City Charter Article V, Part I, Section 9).

Budget Decreases/Frozen Appropriations

The budget may be decreased below adopted appropriations during the fiscal year due to changes in service demand, changes in economic conditions, and/or changes in Council goals. Each service area is responsible for developing a plan to reduce appropriations, which will be ready for implementation should the need arise. If the City Manager directs budget reductions, Council will be informed and the appropriations will be "set aside" through administrative action. While the appropriation amount is not changed, expenditures shall not exceed the reduced amount recommended by the City Manager.

C. Order of Funding when Multiple Funding Sources Available

Sometimes a given project or program has multiple sources of funding available. Examples of such projects include but are not limited to grant funded projects, jointly funded projects/programs between governmental and proprietary funds, or projects/programs where both dedicated tax revenues and General Fund tax revenues are available.

Unless stated otherwise within the authorizing ordinance, budget offer, or a contractual agreement, funding sources will be applied in the order of most-constrained to least-constrained in the judgment of City staff. For example, a project jointly funded by the General Fund and the Natural Areas Fund would first fund project spending using all available and appropriated Natural Areas revenues prior to spending appropriated General Fund revenues. This is in an effort to maximize the benefit of available sources in accordance with the principles described in section 1.2 above.

1.6 Balanced Budget Definition

All funds are required to balance. As such, total anticipated revenues must equal the sum of budgeted expenditures for each fund. Revenues are derived from two sources: current revenue charges and unallocated reserves carried forward from prior years.

1.7 Contingency Planning for Unanticipated Revenue Shortfalls

During times when the City experiences significant unanticipated revenue shortfalls, a contingency plan will be developed that outlines the necessary steps to align expenditures to meet the actual revenue received. The contingency plan will target the funds being impacted by the revenue shortfall. In general, the priority order of the steps in our contingency methodology are:

- Align ongoing expenditures with anticipated ongoing revenue
- Sweep vacancy savings and non-service related savings such as fuel or utilities if under budget
- If a Contingency Reserve has been established, utilize a portion of that reserve
- Develop a stop doing list utilizing the drilling platform prioritization.
- At a Service Area level, reduce expenditures related to
 - discretionary expenditures
 - new hires/vacancies (postponement of posting positions)
 - travel and training
 - reduced levels of support to programs

Revenue

Issue Date: ~~12/20/2016~~

Version: ~~4 DRAFT3~~

Issued by: Revenue and Project Manager

Objective:

Monitoring and controlling revenues is important to the City of Fort Collins. Through its revenue policy, the City primarily aims to maintain a diversified revenue system which will protect it from possible short-term fluctuations in any of its various revenue sources. To accomplish this, revenues are monitored on a continuous basis. An understanding of the economic and legal factors which directly and indirectly affect the level of revenue collections is an important part of the City's revenue policy.

Applicability:

This policy applies to all City Revenues. This policy does/does not apply to or govern revenues generated by City-owned general improvement districts, DDA, URA, PFA or Library District.

Authorized by:

City Council, Resolutions 1994-174, 2013-093, and 2016-096

2.1 Limitations under TABOR (Taxpayer Bill of Rights)

A. Background

The City of Fort Collins' revenue and expenditures are limited by Colorado's Taxpayer's Bill of Rights in Article X, Section 20 of the Colorado Constitution (TABOR). While TABOR limits both revenue and expenditures, its primary application is in limiting revenue collections. Growth in revenue is limited to the increase in the Denver-Boulder-Greeley Consumer Price Index plus local growth (new construction and annexation). This percentage is added to the preceding year's revenue base, giving the dollar limit allowed for revenue collection in the ensuing year. Any revenue collected over the limit must be refunded to the ~~citizen~~residents unless the voters approve the retention of the excess revenue. Federal grants or gifts to the City are not included in the revenue limit. City enterprises (electric, water, wastewater and stormwater utilities) are also exempt from the imposed limits. In 2003, the Golf Fund revenue sources was considered for enterprise status for purposes of TABOR. ~~In order for an entity to become an enterprise, voters must approve a Charter amendment for that entity.~~

B. 'De-Brucing'

In November 1997, Fort Collins' voters approved a ballot measure that allows the City to retain revenues that exceed the growth limit imposed by TABOR. The measure specified that any retained revenues over the growth limit must be used for certain designated purposes.

- Public Health and Safety (including, but not limited to, environmental monitoring and mitigation)
- Transportation
- Growth Management
- Maintenance and Repair of Public Facilities

C. TABOR Notice for New Tax or Tax Increase

- Develop revenue forecasts that are reasonable and factor in the implications of over collection.
- Review these forecasts with the appropriate leadership staff.

D. Monitor New Tax Revenue

- Staff will monitor actual revenue against the forecast revenue disclosed in the TABOR notice.
- In the second year, confirm first years' actual revenue to forecast and determine if any action is needed. Provide a report to the City Council with results and any recommended action.

E. TABOR Legislation and Judicial Decisions

Staff shall monitor new TABOR legislation, judicial decisions and actions taken by other governments to see if they affect the City. This will include working with the City's outside consultants, such as special bond counsel and CML. When such matters are discovered affecting the City, staff will confer to determine what actions, if any, the City should take in response.

F. Documentation of 'Fiscal Year Spending' under TABOR

Although the City has de-Bruced, current interpretations of TABOR section 20(3)(c) merits the need for the ongoing calculation of "fiscal year spending". Staff will maintain and update records annually to calculate the City's fiscal year spending under TABOR. These records shall be kept for at least six years. Also, documentation shall be kept current that defines which related agencies, funds and types of revenues are required under TABOR to be included in fiscal year spending and those that can be excluded.

2.2 Revenue Review, Objectives and Monitoring

A. Review and Projections

The City reviews estimated revenue and fee schedules as part of the budget process. The major revenue sources in the General Fund are sales and use tax, property tax, lodging tax, intergovernmental revenues, fines and forfeitures, user fees and charges, and transfers from other funds. Conservative revenue projections are made for the budget term. The projections are monitored and updated as necessary.

B. Principles

The City has established six (6) general principles that will be used to guide decisions on revenue:

1. Develop and maintain stable revenue sources.

The City will strive to maintain stable revenue sources by:

- a. Targeting revenue sources with minimal volatility
- b. Monitoring current revenue sources for variability
- c. Adjusting forecasts as necessary to accommodate unanticipated increases and declines
- d. Monitoring and adjusting expenditures for unanticipated revenue gains/losses

2. Develop and maintain a diverse revenue base.

For all general government operations, the City will strive to maintain diverse revenue sources. The City recognizes that becoming too dependent upon one revenue source would make revenue yields more vulnerable to economic cycles. Therefore, the City will strive to maintain diverse revenue sources by:

- a. Targeting revenue from multiple sources
- b. Working to expand fee based revenue where possible
- c. Working to minimize overdependence on any single revenue source
- d. Staff will monitor dependency on sales and use tax to ensure an over reliance does not occur

3. Cultivate revenue sources that are equitable among ~~citizen~~residents of different economic levels.

The City will strive to preserve a revenue stream that does not overburden low income residents by:

- a. Providing low income ~~citizen~~residents with opportunities to participate in programs through reduced fee structures and scholarships
- b. Providing a Sales Tax on Food and Utility rebate to lessen the burden of taxes and fees on low income ~~citizen~~residents

- c. Ensuring fees do not exceed cost to provide service
- 4. Generate adequate revenue to maintain service levels in line with ~~citizen~~resident expectations.

The City will generate adequate revenue to maintain core service levels by:

- a. Ensuring fees for service do not exceed cost to provide service
- b. Maintaining a cost recovery model
- c. Monitoring service level performance annually through the Community Scorecard
- d. Regularly reviewing services to assess core vs. desired

- 5. Maintain healthy reserves.

The City will maintain healthy reserves by:

- a. Adhering to State mandated reserve and internal reserve policies
- b. Maintaining a Tabor (State) reserve for the General Fund of 3% or more of the City's fiscal year spending
- c. Meeting City policy for the General Fund of an additional contingency of 60 days or 17% of next year's adopted budgeted expenditures

- 6. Fees for Services are fairly born by those who use those services.

C. Monitoring

In an annual summary financial report the major sources revenue and the associated percentages will be reviewed by the Council Finance Committee.

2.3 Fee Policy

As a home rule municipality, the City of Fort Collins has the ability to determine the extent to which fees should be used to fund City facilities, infrastructure and services. There are two kinds of fees that the City may establish: Impact Fees and Special Service Fees. Impact fees are typically one-time charges levied by the City against new development. ~~Impact The~~ fees are based on current levels of service and act as a buy-in method for new development. The revenue can only be used for capital infrastructure needs created by the impact of the new development. ~~However, the City may and does employ other methodologies legally available to calculate its impact fees.~~ Special service fees are charges imposed on persons or property that are designed to defray the overall cost of the particular municipal service for which the fee is imposed. This Policy sets forth principles for identifying: (1) the kinds of services for which the City could appropriately impose fees; (2) methods for calculating the percentage of costs to be recovered by such fees; and (3) the manner in which the fees should be allocated among individual fee payers.

A. Fees should be cost related

The amount of a fee should not exceed the overall cost of providing the facility,

infrastructure or service for which the fee is imposed. Cost may include direct and indirect costs. That is:

1. Costs which are directly related to the provision of the service; and,
2. Support costs which are more general in nature but provide support for the provision of the service.

B. Percentage of cost recovery

The extent to which the total cost of service should be recovered through fees depends upon the following factors:

1. The nature of the facilities, infrastructure or services. In the case of fees for facilities, infrastructure as well as governmental and proprietary services, total cost recovery may be warranted. In the case of governmental services, it may be appropriate for a substantial portion of the cost of such services to be borne by the City's taxpayers, rather than the individual users of such services.
2. The nature and extent of the benefit to the fee payers. When a particular facility or service results in substantial, immediate and direct benefit to fee payers, a higher percentage of the cost of providing the facility or service should be recovered by the fee. When a particular facility or service benefits not only the fee payer but also a substantial segment of the community, lower cost recovery is warranted.
3. The level of demand for a particular service. Because the pricing of services can significantly affect demand, full cost recovery for services is more appropriate when the market for the services is strong and will support a high level of cost recovery.
4. Ease of collection. In the case of impact fees, ease of collection is generally not a factor. In the case of fees for services, however, such fees may prove to be impractical for the City to utilize if they are too costly to administer.

C. Establishment and Modification of Fees and Charges

The following Impact Fees imposed by the City are established by the City Council by ordinance and may be modified only by ordinance of the City Council.

1. Six Capital Expansion Fees: Transportation, Neighborhood Park, Community Park, Fire, Police and General Government
2. Five Utility Fees: Water Supply Requirement, Electric Capacity, Sewer Plant Investment, Stormwater Plant Investment, Water Plant Investment

Fee updates occur on a regular two and four-year cadence and fee updates occur together to provide a more holistic view of the impact of any fee increases. Detailed

fee study analysis for all six Capital Expansion Fees occurs every four years. This requires an outside consultant through a request for proposal (RFP) process where data is provided by City staff. Findings by the consultant are also verified by City staff. For Utility Fees, a detailed fee study is planned every two years. These are internal updates by City staff with periodic consultant verification. Fee study analysis will be targeted in the odd year before Budgeting for Outcomes (BFO). In years without an update, an inflation adjustment occurs.

The amounts of all other service and administrative fees may be determined by the City Manager as provided in City Code Chapter 7.5, Article I, absent any provision of the City Charter the contrary. Development Review/Building Fees follow the same four-year cadence as the Capital Expansion Fees.

All fee revenues will be estimated by the City Manager and submitted to the City Council as part of the City Manager's recommended budget.

Aside from user fees, (e.g. recreation classes and facility room rentals), all fees imposed by the City will be established by the City Council by ordinance. In the case of impact fees, utility fees and charges, and special service fees assessed against property the ordinance establishing the fees will determine:

1. The level of cost that should be recovered through the fees according to the criteria established in this Policy;
2. An appropriate method for apportioning the cost of providing each service among the users of the service; and,
3. A procedure for periodically reviewing and modifying the amount of fees in order to maintain appropriate cost recovery levels.

The amounts of these kinds of fees may be modified only by ordinance of the City Council.

The amounts of other Special Service Fees, such as user fees charged for the use of City facilities, may be determined by the City Manager, according to criteria established by the City Council by ordinance, absent any provision of the City Charter or Code to the contrary.

All fee revenues will be estimated by the City Manager and submitted to the City Council as part of the City Manager's recommended budget.

D. Rebate Programs

If the amount of a particular fee is considered to be too high to accommodate the needs of particular segments of the community and the public interest would be served by adjusting the amount or manner of payment of such fees in particular instances, the amount of the fee may be waived, rebated, or deferred as appropriate. In the case of fees established by ordinance, the criteria for waiving, rebating, or deferring payment of such fees shall be established by the City Council by ordinance.

2.4 Sales and Use Tax Distribution

Sales and Use Tax shall be used and accounted for as intended by the voters. Details of how the different segments of sales and use tax are used are outlined in the City Code Chapter 25. The following is a summary for informational purposes only.

The City's Sales and Use Tax currently totals 3.85 cents [on a \\$1.00 purchase](#), developed as follows:

[In effect through December 31, 2020](#)

1968 - General City uses	1.00 cent
1980 - General City uses	1.00 cent
1982 - General City uses	0.25 cent
2015 - Street Maintenance	0.25 cent*
2015 - Community Capital Improvement Program	0.25 cent*
2006 - Natural Areas & Open Space	0.25 cent*
2011 - Keeping Fort Collins Great	<u>0.85 cent**</u>
	3.85 cents

* Excludes sales and use tax on grocery food for home consumption

** Excludes sales and use tax on grocery food for home consumption and manufacturing equipment

[Taxes effective beginning January 1, 2021](#)

Begin	Through	Uses	Rate per \$1.00	
1968	No end	General City Purposes	1.00 cent	
1980	No end	General City Purposes	1.00 cent	
1982	No end	General City Purposes	0.25 cent	
2016	2025	Street Maintenance	0.25 cent	*
2016	2025	Community Capital Improvement Program	0.25 cent	*
2006	2029	Natural Areas & Open Space	0.25 cent	*
2021	No end	General City Purposes	0.60 cent	**
2021	2030	General City Purposes	0.25 cent	**
			3.85 cents	

[* Excludes sales and use tax on grocery food for home consumption](#)

[** Excludes sales and use tax on grocery food for home consumption and manufacturing equipment](#)

2.5 **Private Philanthropic Contributions**

The City of Fort Collins (City) will pursue philanthropic support consistent with the City's goals and objectives, and in the best interests of Fort Collins residents. The City will always consider the public trust and comply with all applicable laws when soliciting and accepting philanthropic donations.

Strong oversight of philanthropic gifts is a priority, and the City has created multiple layers of accountability and transparency for donated funds and the projects receiving donated funds. Charitable gifts to the City can only be used for the intended purpose designated by donors. Charitable gifts to the City delivered directly into the budgets of benefiting projects, and can't be redirected by elected officials or City staff.

The City reserves the right to decline any charitable gift if, upon review, acceptance of the donation offer is determined in the sole discretion of the City not to be in the best interests of the City.

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In 2019, the City of Fort Collins adopted Administrative Policy 52-City Give to create standards and protocols for the acceptance and governance of charitable gifts, and for the orchestration of philanthropic practices. Additionally, the City adopted Finance Governance Policy to establish protocols for City Give, staff and officials regarding the acceptance and documentation of philanthropic gifts, and procedures to responsibly and efficiently manage charitable gifts.

~~Efforts should be made to secure private contributions in support of City programs and services, as these contributions are an integral part of their successful operation.~~

Definitions

Governmental Services: *services provided by the City for the public good such as regulating land use, maintaining streets, and providing police and fire protection.*

Impact Fees: *usually one-time charges, levied by the City against new development to offset the impacts of the new developments*

Proprietary Services: *services provided for the benefit and enjoyment of the residents of the City, at their discretion, such as parks and recreation services*

Rebate: *a return of a portion of a fee within a specified time. Unlike a waiver or discount, the rebate is given after the fee has been paid in full*

Special Service Fee: *charges imposed on persons or property that are designed to defray the overall cost of the particular municipal service for which the fee is imposed*

Waiver: *when a portion of a fee is reduced before being paid by a buyer*

Getting Help

Please contact the Revenue and Project Manager with any questions at 970.221.6626.

Related Policies/References

City Code Chapter 25 Taxation, Article III Sales & Use Tax

City Code Chapter 26 Utilities

Administrative Fee

Revenue

Issue Date: 12/20/2016

Version: 3

Issued by: Revenue and Project Manager

Objective:

Monitoring and controlling revenues is important to the City of Fort Collins. Through its revenue policy, the City primarily aims to maintain a diversified revenue system which will protect it from possible short-term fluctuations in any of its various revenue sources. To accomplish this, revenues are monitored on a continuous basis. An understanding of the economic and legal factors which directly and indirectly affect the level of revenue collections is an important part of the City's revenue policy.

Applicability:

This policy applies to all City Revenues. This policy does/does not apply to or govern revenues generated by City-owned general improvement districts, DDA, URA, PFA or Library District.

Authorized by:

City Council, Resolutions 1994-174, 2013-093, and 2016-096

2.1 Limitations under TABOR (Taxpayer Bill of Rights)

A. Background

The City of Fort Collins' revenue and expenditures are limited by Article X, Section 20 of the Colorado Constitution (TABOR). While TABOR limits both revenue and expenditures, its primary application is in limiting revenue collections. Growth in revenue is limited to the increase in the Denver-Boulder-Greeley Consumer Price Index plus local growth (new construction and annexation). This percentage is added to the preceding year's revenue base, giving the dollar limit allowed for revenue collection in the ensuing year. Any revenue collected over the limit must be refunded to the citizens unless the voters approve the retention of the excess revenue. Federal grants or gifts to the City are not included in the revenue limit. City enterprises (electric, water, wastewater and stormwater utilities) are also exempt from the imposed limits. In 2003, the Golf Fund revenue sources was considered for enterprise status for purposes of TABOR. In order for an entity to become an enterprise, voters must approve a Charter amendment for that entity.

B. 'De-Brucing'

In November 1997, Fort Collins' voters approved a ballot measure that allows the City to retain revenues that exceed the growth limit imposed by TABOR. The measure specified that any retained revenues over the growth limit must be used for certain designated purposes.

- Public Health and Safety (including, but not limited to, environmental monitoring and mitigation)
- Transportation
- Growth Management
- Maintenance and Repair of Public Facilities

C. TABOR Notice for New Tax or Tax Increase

- Develop revenue forecasts that are reasonable and factor in the implications of over collection.
- Review these forecasts with the appropriate leadership staff.

D. Monitor New Tax Revenue

- Staff will monitor actual revenue against the forecast revenue disclosed in the TABOR notice.
- In the second year, confirm first years' actual revenue to forecast and determine if any action is needed. Provide a report to the City Council with results and any recommended action.

E. TABOR Legislation and Judicial Decisions

Staff shall monitor new TABOR legislation, judicial decisions and actions taken by other governments to see if they affect the City. This will include working with the City's outside consultants, such as special bond counsel and CML. When such matters are discovered affecting the City, staff will confer to determine what actions, if any, the City should take in response.

F. Documentation of 'Fiscal Year Spending' under TABOR

Although the City has de-Bruced, current interpretations of TABOR section 20(3)(c) merits the need for the ongoing calculation of 'fiscal year spending'. Staff will maintain and update records annually to calculate the City's fiscal year spending under TABOR. These records shall be kept for at least six years. Also, documentation shall be kept current that defines which related agencies, funds and types of revenues are required under TABOR to be included in fiscal year spending and those that can be excluded.

2.2 Revenue Review, Objectives and Monitoring

A. Review and Projections

The City reviews estimated revenue and fee schedules as part of the budget process. The major revenue sources in the General Fund are sales and use tax, property tax, lodging tax, intergovernmental revenues, fines and forfeitures, user fees and charges, and transfers from other funds. Conservative revenue projections are made for the budget term. The projections are monitored and updated as necessary.

B. Principles

The City has established six (6) general principles that will be used to guide decisions on revenue:

1. Develop and maintain stable revenue sources.

The City will strive to maintain stable revenue sources by:

- a. Targeting revenue sources with minimal volatility
- b. Monitoring current revenue sources for variability
- c. Adjusting forecasts as necessary to accommodate unanticipated increases and declines
- d. Monitoring and adjusting expenditures for unanticipated revenue gains/losses

2. Develop and maintain a diverse revenue base.

For all general government operations, the City will strive to maintain diverse revenue sources. The City recognizes that becoming too dependent upon one revenue source would make revenue yields more vulnerable to economic cycles. Therefore, the City will strive to maintain diverse revenue sources by:

- a. Targeting revenue from multiple sources
- b. Working to expand fee based revenue where possible
- c. Working to minimize overdependence on any single revenue source
- d. Staff will monitor dependency on sales and use tax to ensure an over reliance does not occur

3. Cultivate revenue sources that are equitable among citizens of different economic levels.

The City will strive to preserve a revenue stream that does not overburden low income residents by:

- a. Providing low income citizens with opportunities to participate in programs through reduced fee structures and scholarships
- b. Providing a Sales Tax on Food and Utility rebate to lessen the burden of taxes and fees on low income citizens

- c. Ensuring fees do not exceed cost to provide service
- 4. Generate adequate revenue to maintain service levels in line with citizen expectations.

The City will generate adequate revenue to maintain core service levels by:

- a. Ensuring fees for service do not exceed cost to provide service
- b. Maintaining a cost recovery model
- c. Monitoring service level performance annually through the Community Scorecard
- d. Regularly reviewing services to assess core vs. desired

- 5. Maintain healthy reserves.

The City will maintain healthy reserves by:

- a. Adhering to State mandated reserve and internal reserve policies
- b. Maintaining a Tabor (State) reserve for the General Fund of 3% or more of the City's fiscal year spending
- c. Meeting City policy for the General Fund of an additional contingency of 60 days or 17% of next year's adopted budgeted expenditures

- 6. Fees for Services are fairly born by those who use those services.

C. Monitoring

In an annual summary financial report the major sources revenue and the associated percentages will be reviewed by the Council Finance Committee.

2.3 Fee Policy

As a home rule municipality, the City of Fort Collins has the ability to determine the extent to which fees should be used to fund City facilities, infrastructure and services. There are two kinds of fees that the City may establish: Impact Fees and Special Service Fees. Impact fees are typically on-time charges levied by the City against new development. The fees are based on current levels of service and act as a buy-in method for new development. The revenue can only be used for capital infrastructure needs created by the impact of the new development. Special service fees are charges imposed on persons or property that are designed to defray the overall cost of the particular municipal service for which the fee is imposed. This Policy sets forth principles for identifying: 1) the kinds of services for which the City could appropriately impose fees; 2) methods for calculating the percentage of costs to be recovered by such fees; and 3) the manner in which the fees should be allocated among individual fee payers.

A. Fees should be cost related

The amount of a fee should not exceed the overall cost of providing the facility,

infrastructure or service for which the fee is imposed. Cost may include direct and indirect costs. That is:

1. Costs which are directly related to the provision of the service; and,
2. Support costs which are more general in nature but provide support for the provision of the service.

B. Percentage of cost recovery

The extent to which the total cost of service should be recovered through fees depends upon the following factors:

1. The nature of the facilities, infrastructure or services. In the case of fees for facilities, infrastructure as well as governmental and proprietary services, total cost recovery may be warranted. In the case of governmental services, it may be appropriate for a substantial portion of the cost of such services to be borne by the City's taxpayers, rather than the individual users of such services.
2. The nature and extent of the benefit to the fee payers. When a particular facility or service results in substantial, immediate and direct benefit to fee payers, a higher percentage of the cost of providing the facility or service should be recovered by the fee. When a particular facility or service benefits not only the fee payer but also a substantial segment of the community, lower cost recovery is warranted.
3. The level of demand for a particular service. Because the pricing of services can significantly affect demand, full cost recovery for services is more appropriate when the market for the services is strong and will support a high level of cost recovery.
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C. Establishment and Modification of Fees and Charges

Aside from user fees, (e.g. recreation classes and facility room rentals), all fees imposed by the City will be established by the City Council by ordinance. In the case of impact fees, utility fees and charges, and special service fees assessed against property the ordinance establishing the fees will determine:

1. The level of cost that should be recovered through the fees according to the criteria established in this Policy;
2. An appropriate method for apportioning the cost of providing each service among the users of the service; and,

3. A procedure for periodically reviewing and modifying the amount of fees in order to maintain appropriate cost recovery levels.

The amounts of these kinds of fees may be modified only by ordinance of the City Council.

The amounts of other Special Service Fees, such as user fees charged for the use of City facilities, may be determined by the City Manager, according to criteria established by the City Council by ordinance, absent any provision of the City Charter or Code to the contrary.

All fee revenues will be estimated by the City Manager and submitted to the City Council as part of the City Manager's recommended budget.

D. Rebate Programs

If the amount of a particular fee is considered to be too high to accommodate the needs of particular segments of the community and the public interest would be served by adjusting the amount or manner of payment of such fees in particular instances, the amount of the fee may be waived, rebated, or deferred as appropriate. In the case of fees established by ordinance, the criteria for waiving, rebating, or deferring payment of such fees shall be established by the City Council by ordinance.

2.4 Sales and Use Tax Distribution

Sales and Use Tax shall be used and accounted for as intended by the voters. Details of how the different segments of sales and use tax are used are outlined in the City Code Chapter 25. The following is a summary for informational purposes only.

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	3.85 cents

* Excludes sales and use tax on grocery food for home consumption

** Excludes sales and use tax on grocery food for home consumption and manufacturing equipment

2.5 Private Contributions

Efforts should be made to secure private contributions in support of City programs and services, as these contributions are an integral part of their successful operation.

Definitions

Governmental Services: *services provided by the City for the public good such as regulating land use, maintaining streets, and providing police and fire protection.*

Impact Fees: *usually one-time charges, levied by the City against new development to offset the impacts of the new developments*

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Rebate: *a return of a portion of a fee within a specified time. Unlike a waiver or discount, the rebate is given after the fee has been paid in full*

Special Service Fee: *charges imposed on persons or property that are designed to defray the overall cost of the particular municipal service for which the fee is imposed*

Waiver: *when a portion of a fee is reduced before being paid by a buyer*

Getting Help

Please contact the Revenue and Project Manager with any questions at 970.221.6626.

Related Policies/References

City Code Chapter 25 Taxation, Article III Sales & Use Tax

City Code Chapter 26 Utilities

Administrative Fee

General Financial Policies

Issue Date: 11/21/17
Version: 4
Issued by: City Council

Objective:

To outline the method and principles for allocation Administrative Charges; establishing the parameters for the Medical and Retirement Program; Fund Organization; Cost Recovery and Fee Setting; and Capital Improvement Program.

Applicability:

This policy applies to all City funds. It does not apply to URA, DDA, PFA and Library.

Authorized by:

City Council Resolution 2006-006, 2015-055 and 2017-101.

3.1 Administrative Charges

Certain General Fund departments render services to departments in other funds and shall be equitably apportioned to those other funds. General Fund departments that do not have a direct billing mechanism shall have their costs allocated using the formula outlined in this section to other funds, and provide offsetting revenue in the General Fund.

A. General Fund Departmental Costs to be Allocated

Certain General Fund departmental costs to be allocated include City Council, City Manager, City Clerk, City Attorney, Human Resources, and Finance. Any services in these departments which are funded by user fees or dedicated revenues are excluded from the allocation.

The amount of costs to be allocated is the current adopted budget for each of the departments listed above less user fees and dedicated revenue. With a multi-year budget, the charge to each fund is increased by a determined percentage for the second future year and then adjusted to the actual calculation with the next multi-year budget.

B. How Costs Are Allocated

The Human Resources costs are allocated on a prorated basis to funds based on the total number of budgeted full-time-equivalent positions in each fund.

All other General Fund administrative costs are allocated on a prorated basis to the funds based upon adjusted expenditure budgets for the current year. Adjustments are made to recognize the lower amount of administrative services required for Capital, Debt Service, and Purchased Power payments. Capital project budgets are reduced by two-thirds and averaged over three years. Debt Service budgets are reduced by three-fourths and the entire Purchased Power budget is deducted from the Light & Power budget.

C. All Funds Receive Allocations but Not All Funds Are Charged

While Administrative Charges are allocated among all City funds, only specified funds are charged. Charges are not made to a fund if it is not self-supporting, it is a ~~an~~ Governmental Internal Service fund, or if the fund's role is merely to facilitate proper accounting procedures. For example, the Sales and Use Tax fund and Debt Service fund receive amounts which are then transferred to other funds. Charging these funds would lead to double charging many transactions and would not correspond to the level of service provided by the departments in the General Fund.

D. Review

During each budget process, the Administrative Charge calculation will be reviewed ~~by~~ the Budget Office. Minor refinements in the allocation formulas are made as needed. Significant changes will be brought to the City Council for approval to assure that the equitable apportionment meets requirements of the Code/Charter.

3.2 Medical Insurance and Retirement Plan

A. Medical Insurance

In 1981, the City of Fort Collins set up a partially self-funded medical insurance program. The objective of a self-funding program is to reduce the cost of medical insurance by assuming the risk for certain plan expenses. Assuming a portion of the risk lowers the amount of charges compared to a conventional full insurance plan. ~~For most of the last 33 years~~ Historically, the City has found this funding method to be a cost-effective means of providing a very desirable employee benefit.

To administer the self-funded and insured portions of the medical insurance plans, the City conducts a competitive proposal process every five years or more often if required. The insurance contracts are reviewed annually for both performance and cost. The types of services contracted for include plan administrative services, stop-loss protection against larger claims, life and accidental death and dismemberment insurance, and long-term disability coverage.

B. Retirement Programs

The City of Fort Collins contributes to two types of retirement plans: a Defined Benefit Plan and Defined Contribution Plans.

1. Defined Benefit Plan - the General Employees Retirement Plan (Plan). The pension plan is closed to new participants as of 1/1/1999.

The Plan document approved by the City Council outlines the details of the program. A Board meets monthly to oversee the program. Board members, in consultation with annual actuary report and other information, make recommendations to City Council for any plan changes that may be needed from time to time. The Plan currently calls for the employer (City ~~or PFA~~) to contribute 10.5%. Because the plan is underfunded, a Supplemental Contribution is made at a fixed dollar amount each year. The Supplemental amount is reevaluated every 2 years in conjunction with the budget cycle and based on the latest actuarial valuation report.

2. 401(a) and 457 Money Purchase Plans. Also known as Defined Contribution Plans, the contribution rates are as follows:

Employee Group	401 a			457		
	Employer	Employee	Waiting	Employer	Employee	Waiting
Classified Employees	6.5%	3.0%	6 months	0.0%	optional	no wait
Classified Employees hired on or before 3/31/07	7.5%	3.0%	6 months	0.0%	optional	no wait
Unclassified Management	6.5%	6.0%	6 months <u>no wait</u>	0.0%	optional	no wait
Unclassified Management hired on or before 3/31/07	7.5%	6.0%	6 months <u>no wait</u>	0.0%	optional	no wait
Direct Reports of City Council	10.0%	0.0%	no wait	match up to 3%	optional	no wait
Service Area Directors	10.0%	0.0%	no wait	match up to 3%	optional	no wait
Police & Dispatch (per union agreement) *	10.58.0% <u>8.07.5%</u>	8.54% <u>5.0%</u>	no wait	match up to 3%	optional	6 months <u>for match</u>
Community Service Officer	<u>8.07.5%</u>	3.0%	6 months	0.0%	optional	no wait

* All employee groups vest immediately, except Police and Dispatch who follow schedule in union agreement.

Employee contributions to the 457 plan are limited to the amounts published by the IRS.

The City will contract with a third party administrator to provide the Defined Contribution Plans. City Staff comprised of both Finance and HR will oversee the program and performance of the third party administrator.

3.3 Fund Organization

Funds for accounting and financial reporting purposes have their own balance sheet and income statement.

The organization of the City's Funds is designed to enhance accountability and transparency, comply with Generally Accepted Accounting Principles, meet grant requirements, comply with City Code/Charter and comply with Colorado statutes. In City Article V, ~~Part III~~, Section 25 the Financial Officer is empowered to create funds as appropriate. However, City Code Chapter 8, Article III also establishes additional parameters for City funds.

The number of funds established should be the minimum needed for legal and operating requirements. Unnecessary funds can result in inflexibility, undue complexity and inefficient financial administration.

The City's funds are organized at two levels of groupings; Fund Groups and Fund Types.

Fund Groups

Governmental Funds	Used to account for activities primarily supported by taxes, grants and similar revenue sources.
Proprietary Funds	Used to account for activities that receive significant support from fees and charges.
Fiduciary Funds	Used to account for resources that a City holds as a trustee or agent on behalf of an outside party that cannot be used to support the City's own programs.

Within each Fund Group are Fund Types.

Governmental Fund Types

General Fund	Main operating fund used to account for and report all financial resources not accounted for and reported in another fund.
Special Revenue Funds	Used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditure for specific purposes, other than debt service or capital projects.
Debt Service Funds	Used to account for and report resources that are restricted, committed or assigned to expenditure for principal and interest.

Capital Project Funds	Used to account for and report resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets.
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Proprietary Fund Types

Enterprise Funds	Used to account and report any activity for which a fee is charged to external users of goods and services
Internal Service Funds	Used to account and report any activity for which a fee is charged to other funds, departments, or agencies of the City and its component units on a cost reimbursement basis.

Fiduciary Fund Types

Pension (and Other Employee Benefit) Trust Funds	Used to account and report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans.
Agency-Custodial Funds	Used to report resources held by the City in a purely custodial capacity.

The following is a list of all funds of the City, including legally separate entities but from a financial reporting perspective are treated as a component unit of the City.

Group and Type	Legal	Ref.	Name
<i>Governmental</i>			
General Fund	City	100	General Fund
Special Revenue Fund	City	250	Capital Expansion Fund
Special Revenue Fund	City	251	Sales & Use Tax Fund
Special Revenue Fund	Separate	252	General Improvement District #1
Special Revenue Fund	City	254	Keep Fort Collins Great Fund
Special Revenue Fund	City	255	Community Capital Improvement Program
Special Revenue Fund	City	272	Natural Areas Fund
Special Revenue Fund	City	273	Cultural Services & Facilities
Special Revenue Fund	City	274	Recreation Fund
Special Revenue Fund	City	275	Cemeteries Fund
Special Revenue Fund	City	276	Perpetual Care Fund
Special Revenue Fund	City	277	Museum Fund
Special Revenue Fund	City	280	Community Development Block
Special Revenue Fund	City	281	Home Investment Partnership
Special Revenue Fund	City	290	Transit Services Fund
Special Revenue Fund	City	291	Street Oversizing Fund Transportation Capital Expansion Fee
Special Revenue Fund	City	292	Transportation Services Fund
Special Revenue Fund	Separate	293	GID #15 - Skyview
Special Revenue Fund	City	294	Parking Fund
Special Revenue Fund	City	300	Timberline/Prospect SID #94
Debt Service	City	304	Capital Leasing Corporation

Capital Projects Fund	City	400	Capital Projects Fund
Capital Projects Fund	City	270	Neighborhood Parkland Fund
Capital Projects Fund	City	271	Conservation Trust Fund
<i>Proprietary</i>			
Enterprise Fund	City	500	Golf Fund
Enterprise Fund	City	501	Light & Power Fund Electric and Telecommunications Fund
Enterprise Fund	City	502	Water Fund
Enterprise Fund	City	503	Wastewater Fund
Enterprise Fund	City	504	Storm Drainage Fund
Enterprise Fund	City	505	Broadband Fund
Internal Service Fund	City	601	Equipment Fund
Internal Service Fund	City	602	Self-Insurance Fund
Internal Service Fund	City	603	Data A and Communications Fund
Internal Service Fund	City	604	Benefits Fund
Internal Service Fund	City	605	Utility Customer Service & Admin
<i>Fiduciary</i>			
Pension Trust Fund	City	700	Employees' Retirement Fund
<i>Governmental</i>			
Special Revenue Fund	Separate	800	URA - N. College District
Special Revenue Fund	Separate	801	URA - Prospect South TIF District
Special Revenue Fund	Separate	803	URA - Mall Fund
Special Revenue Fund	Separate	820	DDA Operating Fund
Special Revenue Fund	Separate	821	DDA Fixed Asset and Long Term Debt
Special Revenue Fund	Separate	822	DDA Debt Service Fund

3.4 Cost Recovery and Fee Setting

- A. Enterprise Funds shall rely on charges and user fees to recover their costs, rather than taxes. Utility rates will be based upon the cost of service approach to reflect full distribution of costs to appropriate rate classes in order to effect equitable sharing of costs. Rates shall be established and maintained at a level sufficient to maintain positive net income in each of the utility funds after paying the full cost of operating and maintaining the utilities and keeping them in good repair and working order. Such rates shall also be sufficient to enable each utility, where applicable, to meet rate requirements of City or utility enterprise bond ordinances.

- B. The Internal Service Funds shall operate under the following guidelines.

1. Internal service fund charges are limited to the recovery of the cost of the service, including depreciation, rather than making a profit. Each fund's prior year financial statements and estimates of future costs form the basis for the calculation of charges.
2. Charges should be set at a level to avoid significant adverse financial impacts on their customers. Fund customers and independent experts should be allowed to review and make recommendations about the level of charges. The Finance Department should approve the analysis and conclusions used to set rates.
3. Internal service funds should compete with similar services offered by the private sector. The City staff will compare rates every five years. If not competitive with the private sector, the Finance Department will analyze whether the private sector should provide the service.
4. Internal service funds may build up reserves. Customer-approved master plans and independent third-party actuarial reviews (for the Benefit and Self-Insurance funds) guide the level of reserves. Fund managers may spend reserves only for their approved purpose.
5. The City may buy equipment and facilities for the internal service funds through lease-purchase financing. Management's decision to recommend lease-purchase financing depends on:- (1) cash flow needs; (2) budget constraints; (3) benefit to cost analysis; and (4) level of reserves.
6. Except for the Utilities Customer Service and Administration Fund, Internal service funds operate under the same guidelines and constraints as the General Fund and other governmental funds of the City. The Utilities Customer Service and Administration Fund shall operate under the guidelines of the Utilities Services Funds.

C. Cultural Services & Facilities Fund Fee Policy

1. Total revenue from fees and charges shall cover a minimum of 55% of Lincoln Center Operation and Maintenance and Performing and Visual Arts Programming Budgets. This includes revenues generated at the Lincoln Center from rentals, equipment, concessions and other miscellaneous sources and all total direct revenues from the Performing and Visual Arts Programming. A transfer from the General Fund will make up the difference between total revenue and expenditures.
2. The Cultural Services and Facilities Administration and Museum budgets provide minimal financial support. These programs are funded primarily by a transfer from the General Fund.

3. Major capital improvements and renovations will be financed through sources other than Cultural Services and Facilities Fund.

4. Charitable gifts and donations—raised from the philanthropic sector of foundations, corporations, and individuals to support public initiatives of the City of Fort Collins—will be made directly to the City of Fort Collins. Acceptance, stewardship, tracking, and expenditures of all charitable gifts are governed by Philanthropic Administrative and City Give Finance Governance Policy with great attention to transparency and accountability. ~~Solicitation of funds through donations, fund-raising events, and non-traditional sources shall be encouraged by the City staff, Lincoln Center League, the Cultural Resources Board and the City Council. Funding collected for any special purpose shall be earmarked for that purpose and those funds will be processed through the Fort Collins Foundation.~~

D. Recreation Fund Rates and Charges Policy

Recreation Rates and Charges shall cover between 68% to 75% of all operating costs, with the difference to be covered by the City's General Fund and/or 50% of the Keep Fort Collins Great portion dedicated to Parks & Recreation. Equipment and rolling stock shall be considered operating costs in the application of this policy. Recreation Rates and Charges shall not be expected to cover major capital items such as facility and land acquisitions, major renovations to facilities or other costs such as utilities, custodial or grounds maintenance.

3.5 Capital Improvement Program

1. Each Service Area or Department shall develop multi-year Master Plans for capital improvements. On a city-wide basis, staff shall compile a 10-year Capital Improvement Plan and update it every two years. Estimates of operating and maintenance costs should be included;
2. Appropriation requests must include not only the cost of construction or acquisition and the funding sources, but an estimate of operating and maintenance costs;
3. Capital improvements projects will be administered in accordance with the Capital Projects Procedures Manual;
4. Appropriations for capital improvements will be constructed and expenditures incurred only for the purpose as approved by City Council;

5. Staff should seek out grants and partnerships whenever appropriate.

3.6 Using State Allocation of Private Activity Bonds

- A. **Background:** Conduit debt is issued in a local government's name, but the resources for repayment come from individuals or entities that are not part of government. Entities seek conduit debt because of the government's ability to issue debt at favorable tax-exempt rates. Private Activity Bonds (PAB) are a form of conduit debt.

Colorado's Private Activity Bond allocation program is established by the Colorado Private Activity Bond Ceiling Allocation Act, Section 24-32-1701, et seq., C.R.S. Pursuant to Section 24-32-1706, annually the City of Fort Collins is offered a portion of the State ceiling as a local government. If the City does not issue bonds or assign bond capacity to an entity for a local project by September 15th annually, the cap automatically reverts back to the state's pool.

Historically, the City has provided this capacity on a first come first serve basis. It has not been uncommon for the City to receive no requests. Because more partners are using programs that can benefit from the lower interest rate that PAB's offer, the City is establishing this process.

- B. **Purpose:** PAB's allow certain private sector activities to receive lower interest rates. PAB's may be used for affordable housing development and rehabilitation, specific economic development programs and for industrial development purposes, among other permitted uses. The City will attempt to find local uses for this development tool.
- C. **Communication:** Information about the program should be placed on the City's website (fcgov.com). Consideration for other advertising and communication methods may be appropriate.
- D. **Awarding and Assigning:** Awarding PAB and Assigning PAB allocations are different processes. Assigning PAB to another qualified issuer is strongly preferred. This is to reduce the administrative investments and leverage the efficiency of qualified issuers who award PAB's regularly. If an entity applies for a direct award under the City's name, staff will attempt to find a qualified issuer that agrees to accept an assignment from the City and issue the PAB under their own authority.

- E. **Application due date:** Written applications to use of Fort Collin’s annual PAB allocation are due to the- City’s Chief Sustainability Officer by March 15th.

F. **Application Elements:**

- a. The following items are required when applying for both assignments and direct awards.
 - i. A request letter signed by applicant describing the project the PAB would be used for and including: the applicant’s name, address, phone, email address, and principal contact.
 - ii. Amount of allocation being requested.
 - iii. Bond counsel firm name, address, phone, email address and principal contact.
 - iv. Description of Applicant’s local projects and years of operation
 - v. Number of years’ entity has been doing business in State of Colorado
 - vi. Provide a Certificate of Good Standing from the Secretary of State’s office.
 - vii. Description of assets to be purchased or constructed and expenses incidental to the project, including the sale of bonds.
 - viii. Explanation of how the project aligns with City objectives.
 - ix. Number of housing units and target demographics
 - x. Statement from competent bond counsel that the project is eligible for qualified private activity bonds.
- b. The following additional items are required in applications for direct awards of PAB:
 - Debt Information**
 - xi. Name, address, phone of principal contact of the proposed underwriter or lender.
 - xii. Anticipated timetable for bond transaction.
 - xiii. Estimated bond redemption and interest payment schedule
 - xiv. Indicate the type of letter of credit or similar instrument, which will back the debt
 - xv. Disclose if the applicant is involved in any litigation which may affect the validity or repayment of the bonds.
 - Financial Information**
 - xvi. Audited financial statements for the applicant for the last three years and interim statements for the current year. If not available, please explain why.
 - xvii. Projection of future revenues, expenditures and debt service coverage for the next five years supported by a feasibility study.
 - Other**
 - xviii. Describe the arrangements that will ensure compliance with arbitrage reporting and payment requirements.
 - xix. Name, address and principal contact person for applicant’s local bank.

- xx. Briefly describe any potential conflicts of interest of personal/ professional/ political relationships between the applicant's officers and/or directors or applicant's operations and the City of Fort Collins.
- xxi. Any other information which provides evidence of the applicant's ability to repay the bonds and complete the project.

Debt Security

- xxii. All arbitrage calculations and payments must be performed by the trustee under the terms of the trust agreement or by any such other arrangement that will ensure compliance. The City must be provided with copies of 8088-T's filed with the IRS.
 - xxiii. The private entity must provide the City with information on the status of the debt annually and upon any material event.
 - xxiv. The bond documents must indemnify the City against IRS assessments and legal fees arising from the financing.
 - xxv. The issuer's agent will be responsible for all continuing disclosure requirements.
- c. Items missing from application may result in disqualification from consideration.

G. **Fees:** There are no fees for applications that request assignments to another qualifying issuer. However, the following fees apply to applications requesting a direct award of PAB from the City of Fort Collins.

- a. Issuance fee equal to the greater of: A. 0.25% of the par amount of the debt, or B. \$5,000. The fee is capped at \$25,000.
- b. The cost of a review of the financing by an independent fiscal agent (to be selected by the City)
- c. Any other direct cost incurred by the City related to the financing.
- d. There will not be additional issuance fees for any amendment or modification of the original transaction even if it requires official action by City Council, except for actual direct costs of the City.

H. Review Process

- a. PAB Committee: Applications will be reviewed by a committee of at least 3 people. Members will include at least one representative each from Social Sustainability, Economic Health and Finance. Representatives from other departments, such as the City Manager's Office will be added as needed. Service Area Directors will make the necessary appointments to the PAB Committee.
- b. At a minimum, the following factors should be considered by the PAB Committee when making a recommendation:
 - i. How well the project applied for meets the land use, economic development and/or affordable housing goals of the City of Fort Collins.
 - ii. Project feasibility and timing.
 - iii. Leverage of other investment into the project.
 - iv. Maintenance of or increase in local tax base.

- v. Competing uses for the City's allocation.
 - vi. Whether the City's allocation should be used in multiple projects.
 - vii. Whether the application should be considered by any City Board or commission.
- c. The PAB Committee will decide on a recommendation no later than July 1.
- d. City Council shall approve all PAB assignments or direct awards. The PAB Committee shall submit their recommendations to the City Council no later than August 15.

Getting Help

Please contact the Controller with any questions at 970.221.6772 [416.4354](tel:970.221.6772).

General Financial Policies

Issue Date: 11/21/17
Version: 4
Issued by: City Council

Objective:

To outline the method and principles for allocation Administrative Charges; establishing the parameters for the Medical and Retirement Program; Fund Organization; Cost Recovery and Fee Setting; and Capital Improvement Program.

Applicability:

This policy applies to all City funds. It does not apply to URA, DDA, PFA and Library.

Authorized by:

City Council Resolution 2006-006, 2015-055 and 2017-101.

3.1 Administrative Charges

Certain General Fund departments render services to departments in other funds and shall be equitably apportioned to those other funds. General Fund departments that do not have a direct billing mechanism shall have their costs allocated using the formula outlined in this section to other funds, and provide offsetting revenue in the General Fund.

A. General Fund Departmental Costs to be Allocated

Certain General Fund departmental costs to be allocated include City Council, City Manager, City Clerk, City Attorney, Human Resources, and Finance. Any services in these departments which are funded by user fees or dedicated revenues are excluded from the allocation.

The amount of costs to be allocated is the current adopted budget for each of the departments listed above less user fees and dedicated revenue. With a multi-year budget, the charge to each fund is increased by a determined percentage for the second future year and then adjusted to the actual calculation with the next multi-year budget.

B. How Costs Are Allocated

The Human Resources costs are allocated on a prorated basis to funds based on the total number of budgeted full-time-equivalent positions in each fund.

All other General Fund administrative costs are allocated on a prorated basis to the funds based upon adjusted expenditure budgets for the current year. Adjustments are made to recognize the lower amount of administrative services required for Capital, Debt Service, and Purchased Power payments. Capital project budgets are reduced by two-thirds and averaged over three years. Debt Service budgets are reduced by three-fourths and the entire Purchased Power budget is deducted from the Light & Power budget.

C. All Funds Receive Allocations but Not All Funds Are Charged

While Administrative Charges are allocated among all City funds, only specified funds are charged. Charges are not made to a fund if it is not self-supporting, it is an Governmental Internal Service fund, or if the funds role is merely to facilitate proper accounting procedures. For example, the Sales and Use Tax fund and Debt Service fund receive amounts which are then transferred to other funds. Charging these funds would lead to double charging many transactions and would not correspond to the level of service provided by the departments in the General Fund.

D. Review

During each budget process, the Administrative Charge calculation will be reviewed the Budget Office. Minor refinements in the allocation formulas are made as needed. Significant changes will be brought to the City Council for approval to assure that the equitable apportionment meets requirements of the Code/Charter.

3.2 Medical Insurance and Retirement Plan

A. Medical Insurance

In 1981, the City of Fort Collins set up a partially self-funded medical insurance program. The objective of a self-funding program is to reduce the cost of medical insurance by assuming the risk for certain plan expenses. Assuming a portion of the risk lowers the amount of charges compared to a conventional full insurance plan. For most of the last 33 years, the City has found this funding method to be a cost-effective means of providing a very desirable employee benefit.

To administer the self-funded and insured portions of the medical insurance plans, the City conducts a competitive proposal process every five years or more often if required. The insurance contracts are reviewed annually for both performance and cost. The types of services contracted for include plan administrative services, stop-loss protection against larger claims, life and accidental death and dismemberment insurance, and long-term disability coverage.

B. Retirement Programs

The City of Fort Collins contributes to two types of retirement plans: a Defined Benefit Plan and Defined Contribution Plans.

1. Defined Benefit Plan - the General Employees Retirement Plan (Plan). The pension plan is closed to new participants as of 1/1/1999.

The Plan document approved by the City Council outlines the details of the program. A Board meets monthly to oversee the program. Board members, in consultation with annual actuary report and other information, make recommendations to City Council for any plan changes that may be needed from time to time. The Plan currently calls for the employer (City or PFA) to contribute 10.5%. Because the plan is underfunded, a Supplemental Contribution is made at a fixed dollar amount each year. The Supplemental amount is reevaluated every 2 years in conjunction with the budget cycle and based on the latest actuarial valuation report.

2. 401(a) and 457 Money Purchase Plans. Also known as Defined Contribution Plans, the contribution rates are as follows:

Employee Group	401 a			457		
	Employer	Employee	Waiting	Employer	Employee	Waiting
Classified Employees	6.5%	3.0%	6 months	0.0%	optional	no wait
Classified Employees hired on or before 3/31/07	7.5%	3.0%	6 months	0.0%	optional	no wait
Unclassified Management	6.5%	6.0%	6 months	0.0%	optional	no wait
Unclassified Management hired on or before 3/31/07	7.5%	6.0%	6 months	0.0%	optional	no wait
Direct Reports of City Council	10.0%	0.0%	no wait	match up to 3%	optional	no wait
Service Area Directors	10.0%	0.0%	no wait	match up to 3%	optional	no wait
Police & Dispatch (per union agreement) *	8.0%	8.0%	no wait	match up to 3%	optional	6 months
Community Service Officer	7.5%	3.0%	6 months	0.0%	optional	no wait

* All employee groups vest immediately, except Police and Dispatch who follow schedule in union agreement.

Employee contributions to the 457 plan are limited to the amounts published by the IRS.

The City will contract with a third party administrator to provide the Defined Contribution Plans. City Staff comprised of both Finance and HR will oversee the program and performance of the third party administrator.

3.3 Fund Organization

Funds for accounting and financial reporting purposes have their own balance sheet and income statement.

The organization of the City's Funds is designed to enhance accountability and transparency, comply with Generally Accepted Accounting Principles, meet grant requirements, comply with City Code/Charter and comply with Colorado statutes. In City Article V, Part III, Section 25 the Financial Officer is empowered to create funds as appropriate.

The number of funds established should be the minimum needed for legal and operating requirements. Unnecessary funds can result in inflexibility, undue complexity and inefficient financial administration.

The City's funds are organized at two levels of groupings; Fund Groups and Fund Types.

Fund Groups

Governmental Funds	Used to account for activities primarily supported by taxes, grants and similar revenue sources.
Proprietary Funds	Used to account for activities that receive significant support from fees and charges.
Fiduciary Funds	Used to account for resources that a City holds as a trustee or agent on behalf of an outside party that cannot be used to support the City's own programs.

Within each Fund Group are Fund Types.

Governmental Fund Types

General Fund	Main operating fund used to account for and report all financial resources not accounted for and reported in another fund.
Special Revenue Funds	Used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditure for specific purposes, other than debt service or capital projects.
Debt Service Funds	Used to account for and report resources that are restricted, committed or assigned to expenditure for principal and interest.
Capital Project Funds	Used to account for and report resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets.

Proprietary Fund Types

Enterprise Funds	Used to account and report any activity for which a fee is charged to external users of goods and services
Internal Service Funds	Used to account and report any activity for which a fee is charged to other funds, departments, or agencies of the City and its component units on a cost reimbursement basis.

Fiduciary Fund Types

Pension Trust Fund	Used to account and report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans.
Agency Funds	Used to report resources held by the City in a purely custodial capacity.

The following is a list of all funds of the City, including legally separate entities but from a financial reporting perspective are treated as a component unit of the City.

Group and Type	Legal	Ref.	Name
<i>Governmental</i>			
General Fund	City	100	General Fund
Special Revenue Fund	City	250	Capital Expansion Fund
Special Revenue Fund	City	251	Sales & Use Tax Fund
Special Revenue Fund	Separate	252	General Improvement District #1
Special Revenue Fund	City	254	Keep Fort Collins Great Fund
Special Revenue Fund	City	255	Community Capital Improvement Program
Special Revenue Fund	City	272	Natural Areas Fund
Special Revenue Fund	City	273	Cultural Services & Facilities
Special Revenue Fund	City	274	Recreation Fund
Special Revenue Fund	City	275	Cemeteries Fund
Special Revenue Fund	City	276	Perpetual Care Fund
Special Revenue Fund	City	277	Museum Fund
Special Revenue Fund	City	280	Community Development Block
Special Revenue Fund	City	281	Home Investment Partnership
Special Revenue Fund	City	290	Transit Services Fund
Special Revenue Fund	City	291	Street Oversizing Fund
Special Revenue Fund	City	292	Transportation Services Fund
Special Revenue Fund	Separate	293	GID #15 - Skyview
Special Revenue Fund	City	294	Parking Fund
Special Revenue Fund	City	300	Timberline/Prospect SID #94
Debt Service	City	304	Capital Leasing Corporation
Capital Projects Fund	City	400	Capital Projects Fund
Capital Projects Fund	City	270	Neighborhood Parkland Fund
Capital Projects Fund	City	271	Conservation Trust Fund
<i>Proprietary</i>			
Enterprise Fund	City	500	Golf Fund
Enterprise Fund	City	501	Light & Power Fund
Enterprise Fund	City	502	Water Fund

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- D. **Awarding and Assigning:** Awarding PAB and Assigning PAB allocations are different processes. Assigning PAB to another qualified issuer is strongly preferred. This is to reduce the administrative investments and leverage the efficiency of qualified issuers who award PAB's regularly. If an entity applies for a direct award under the City's name, staff will attempt to find a qualified issuer that agrees to accept an assignment from the City and issue the PAB under their own authority.
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- a. PAB Committee: Applications will be reviewed by a committee of at least 3 people. Members will include at least one representative each from Social Sustainability, Economic Health and Finance. Representatives from other departments, such as the City Manager's Office will be added as needed. Service Area Directors will make the necessary appointments to the PAB Committee.
 - b. At a minimum, the following factors should be considered by the PAB Committee when making a recommendation:
 - i. How well the project applied for meets the land use, economic development and/or affordable housing goals of the City of Fort Collins.
 - ii. Project feasibility and timing.
 - iii. Leverage of other investment into the project.
 - iv. Maintenance of or increase in local tax base.
 - v. Competing uses for the City's allocation.
 - vi. Whether the City's allocation should be used in multiple projects.
 - vii. Whether the application should be considered by any City Board or commission.
 - c. The PAB Committee will decide on a recommendation no later than July 1.
 - d. City Council shall approve all PAB assignments or direct awards. The PAB Committee shall submit their recommendations to the City Council no later than August 15.

Getting Help

Please contact the Controller with any questions at 970.221.6772.

Fund Balance Minimums

Objective:

To set minimum fund balances as to mitigate risk, maintain good standing with rating agencies, and ensure cash is available when revenue is unavailable. The policy sets minimum fund balances, not targets or maximum balances. Each fund should be evaluated by staff to determine the appropriateness of maintaining fund balances above the minimums set in this policy. Contingencies for severe weather, prolonged drought, and anticipated capital spending should be considered independently from this policy.

Applicability:

Funds—This policy applies to all City funds. It does not apply to URA, DDA, PFA and Library.

Authorized by:

City Council Resolutions 1994-174, 2008-038, 2014-058 and 2017-101.

5.1 Governmental Funds and Fund Balances

To set minimum fund balances so as to mitigate risks, maintain good standing with rating agencies, and ensure cash is available when revenue is unavailable. The policy ~~is~~ sets minimum fund balances, not targets or maximum balances. Each fund should be evaluated by staff to determine the appropriateness of maintaining fund balances above the minimums set in this policy. Contingencies for severe weather, prolonged drought, and anticipated capital spending should be considered independently from this policy.

The Equity on balance sheet of a governmental fund is called Fund Balance. The current classifications of Fund Balance in governmental funds are primarily based on the origin of the constraints. The following categories are in decreasing order of constraints.

Non-Spendable	Permanent endowments or assets in a non-liquid form
Restricted	Involve a third party: State Legislation or Contractual Agreements
Committed	Set by formal action of the City Council
Assigned	By staff, and/or residual balances in a Special Revenue Fund
Unassigned	Remaining balances in the General Fund governmental funds

Minimums outlined in section 5.3 relate only to **Assigned and Unassigned** balances.

5.2 Proprietary Fund and Working Capital

Internal Service Funds and Enterprise Funds are accounted for nearly identical to the private sector. The balance sheets include long term assets and long term liabilities. The resulting Equity section on their balance sheet, called Net Position, is not always a good measure of spendable financial resources. To get to spendable financial resources, a common calculation is to take Current Assets and subtract Current Liabilities, with the net result called Working Capital.

To further refine, for purposes of this policy, certain required restrictions are further subtracted and result in **Available Working Capital**. Some examples of required restrictions are unspent monies for Art in Public Places, Water Rights, and existing appropriations for capital projects. The minimums outlined in section 5.3 relate to Available Working Capital.

5.3 Minimum Balances

The following Minimum Balances refers to Assigned and Unassigned Fund Balances in governmental funds and Available Working Capital in the Internal Service Funds and Enterprise Funds.

A. General Fund

60 Day Liquidity Goal - The Commitment for Contingency should be at least 60 days (17%) of the subsequent year's originally adopted budgeted expenditures and transfers out. The calculation for the minimum level shall exclude expenditures and transfers out for large and unusual one-time items.

Important note – the 60 Day Liquidity Goal is in addition to the **Restricted Balance Emergency Reserves** required by Article X, Section 20(5) of the State Constitution. This reserve must equal 3% of non-exempt revenue and can only be used for declared emergencies. Fiscal emergencies are specifically excluded by the State Constitution as qualifying use of this reserve.

B. Special Revenue Funds

No minimum balance is required.

C. Debt Service Funds

No minimum balance is required.

D. Capital Project Funds

No minimum balance is required.

E. Enterprise Funds

Enterprise funds focus on working capital rather than fund balance.

Enterprise Funds shall maintain a minimum Available Working Capital equal to 25% of Operating Expenses, less Depreciation. Exception1: In the case of L&P, operating expenses will include purchased renewable energy for resale but will not include regular purchased power for resale (i.e. Platte River Power Authority). Exception 2: In the case of Golf, the minimum fund balance will be 12.5%.

Important note – The Water Fund holds a balance for Restricted Water Rights. The balance equals the amount of cash in-lieu-of water rights payments and raw water surcharges less any expenses for acquiring water rights and water storage;

The enterprises funds should also be accumulating available working capital above these minimums for the purposes of funding future capital projects.

F. Internal Service Funds

Each fund is a unique operation and will maintain a minimum Available Working Capital as follows:

601	Equipment Fund	8.3%	Of annual operating expenses, excluding depreciation
602	Self-Insurance Fund *	25.0%	Of annual operating expenses
603	Data & Communications Fund	0.0%	N/A
604	Benefits Fund	30.0%	Of annual medical and dental expenses
605	Utility Customer Service Fund	0.0%	N/A

* Self Insurance Fund will be measured against Available Unrestricted Net Position instead of Available Working Capital.

5.4 Below Minimum

When circumstances result in balances below the minimum, staff should develop a plan to restore minimums fund balances and present it to Council Finance Committee.

Definitions

Non Spendable Fund Balances: *Applicable to governmental funds. Permanent endowments or assets in a non-liquid form such as long term inter-agency loans.*

Restricted Fund Balances: *Applicable to governmental funds. Involve a third party such as State Legislative requirements, voter ballot language, or the Contractual Agreements with parties external to the City.*

Committed Fund Balances: *Applicable to governmental funds. Involve a of formal action by the City Council. An example is traffic calming revenues are required to be spent on traffic calming activities. Any unspent monies at end of year are classified as Committed to Traffic Calming in the General Fund.*

Assigned Fund Balances: *Are applicable to governmental funds. Assignments can be made by senior management. They represent the intent to use the monies for a specific purpose. An example of this is the one time Harmony Road monies transferred by the State to the City. Although required to be used on Harmony Road, staff intends to use the monies only on Harmony Road improvements. These monies are considered when measuring compliance with minimum fund balances.*

Unassigned Fund Balances: *Are applicable only to the General governmental Fund funds. These monies are considered when measuring compliance with minimum fund balances.*

Working Capital: *Is a term applicable to Internal Service and Enterprise Funds. It is the difference between Current Assets and Current Liabilities. Not all Working Capital is available. Available Working Capital does not include Restrictions for debt, Art in Public Places, approved capital appropriations, and other restrictions.*

Unrestricted Net Position: *Is a term applicable to Internal Service and Enterprise Funds. Not all Unrestricted Net Position is available. Available Unrestricted Net Position does not include unused Art in Public Places monies, approved capital appropriations, and other commitments.*

Liquidity: *Assets range from cash to land. The more easily and quickly an asset can be converted to cash determines its relative liquidity.*

Reserves: *A legacy term that previously referred to fund balances, or fund balances set aside for a specific purpose. It is no longer used on financial statements.*

Fund Balance: *Is a term applicable to governmental funds. Fund balance or Equity is the difference between Assets assets, and Liabilities liabilities, deferred outflows of resources and deferred inflows of resources. Since governmental funds do not have long term assets and long term debt on their balance sheet, fund balance is similar and approximates working capital in the private*

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Fund Balance Minimums

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No minimum balance is required.

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Getting Help

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COUNCIL FINANCE COMMITTEE

AGENDA ITEM SUMMARY

Staff:

Date: 11/16/2020

SUBJECT FOR DISCUSSION

Supplemental Appropriation Request for the Risk Fund for increased insurance premiums

EXECUTIVE SUMMARY

The Risk Fund is currently over budget through October and is expected to remain over budget through year-end. The primary driver of this increase is the higher insurance premiums that have been realized in 2020. These increases are due to two factors; an industry wide adjustment in coverage due to increased risk exposure in the state of Colorado and more hail storm damage realized at the City of Fort Collins in prior years, most notably in 2018.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Staff seeks the approval of a supplemental appropriation of \$660K to compensate for the increased premiums realized during the 2019/2020 coverage period.

BACKGROUND/DISCUSSION

From 2017 through 2019 there has been an increase in hail activity that has been experienced in the Western and Midwestern regions of the US causing an increase in property insurance premiums. According to a recent report from the National Insurance Crime Bureau (NICB), the top 10 states in the US contributed 72% of the total number of hail claim losses for this period. Colorado ranks 2nd highest in the nation, trailing only Texas. In May of 2017, a powerful hailstorm caused widespread damage across Colorado, resulting in \$3.6B of damages, according to the National Oceanic and Atmospheric Administration (NOAA).

Based on the data provided by NICB, Colorado's hail losses saw a significant increase in 2018. Most specific to Fort Collins was a June 2018 event, in which the City sustained significant damages to buildings and vehicles that are still in the process of being repaired. The total claim amount to date for this one incident is \$4.1M. Further, the information provided in this report shows that 4 of the top cities in the US that have the highest hail claims for this period are located in Colorado.

These increased damage events have resulted in higher premiums which have negatively impacted the Safety and Risk Management (SRM) budget. In March 2018, the two-year budget (for 2019 and 2020) was established so that other service areas could incorporate SRM's internal service charges into their budgets. At the time the outside vendor insurance quotes were provided, they had not yet incorporated the industry-wide impacts that are noted above. Compounding this situation is the renewal period of the City's policies in May, which leads to more uncertainty in the budget process. During the 2019

budget year, the SRM budget was short by \$200K – this amount was addressed in the annual clean up exercise last fall.

Because of upward pressure on insurance industry corrections, compounded by severe hail storms in June of 2018, premiums increased from just over \$1M realized in 2018 to \$1.9M in 2020; a 90% increase. This, in addition to the cadence of the two-year budget cycle that solidified the SRM's budget before the insurance premium adjustments, significantly under funded what was needed for this expense.

There is some potential for higher inherent variances in estimated vs. actual premiums due to the long lead time between when estimates are quoted vs. when the coverages take effect. When the budget is made, insurance quotes are being given 17 months in advance, causing a lower confidence that those premiums will hold steady until the first budgeted renewal period. SRM is currently working to move the renewal period from May to January so that it can be better synchronized with the City fiscal year.

SRM is requesting a supplemental appropriation of \$660K because of industry premium corrections and realized losses in 2018 which are detailed in the table below:

Premium Item	2020 Budget	2020 Actual	Variance
Work Comp	165	179	(14)
Liability	696	468	228
Property	346	1220	(874)
Total	1207	1866	(660)

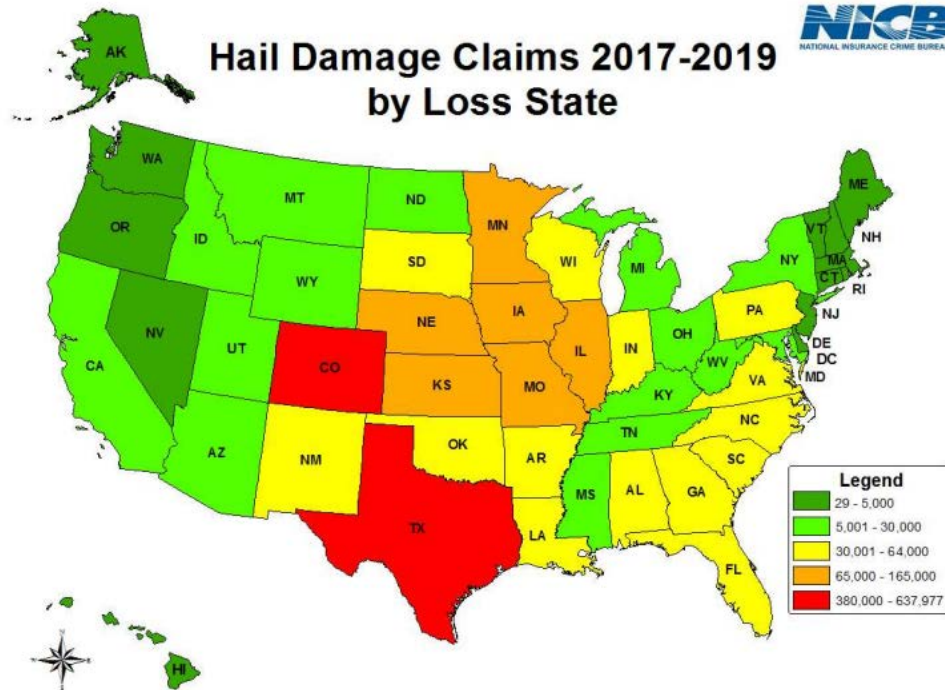
Does Council agree with needed appropriation for Insurance Premiums?



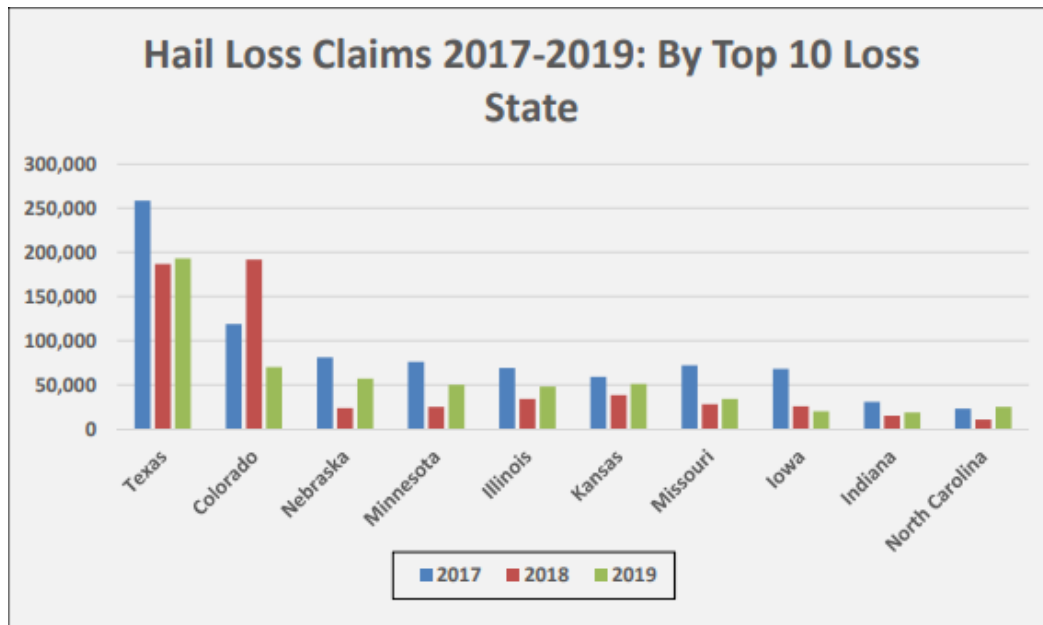
Safety and Risk Management Insurance

November 16, 2020

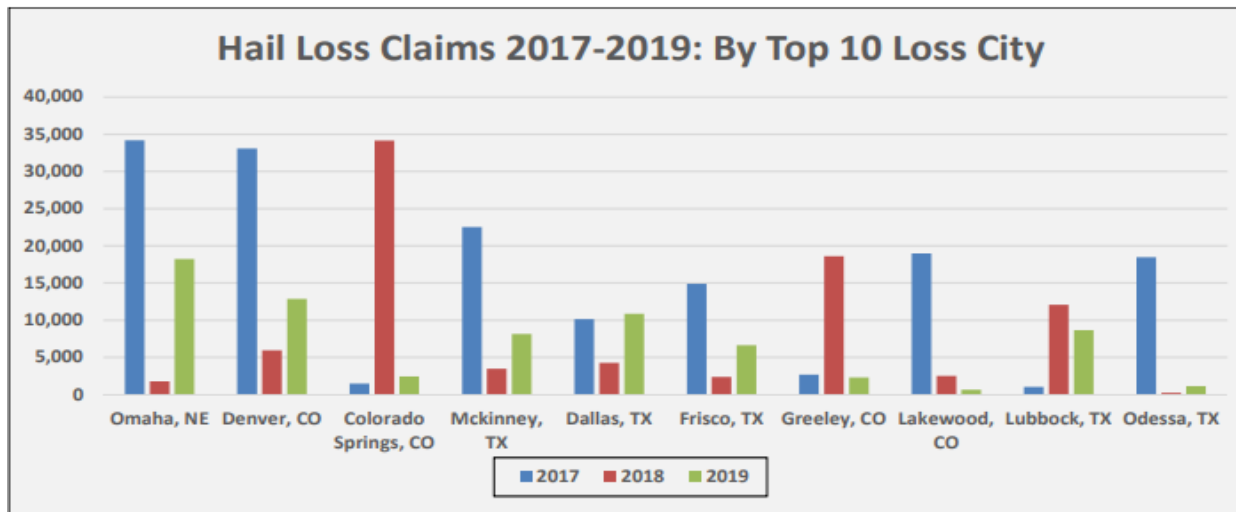
1. Does the Council Finance Committee support a supplemental appropriation of \$660K for increased insurance premiums coming forward to Council at the 11/17 Meeting?



Property Insurance Landscape



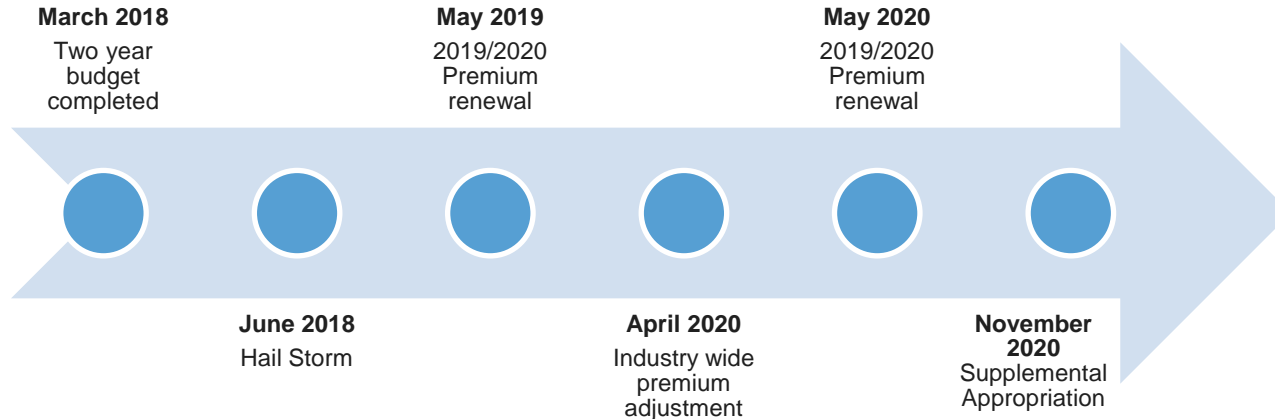
National Insurance Crime Bureau April 14, 2020



**Fort Collins Losses for 2018
Hail Storm to date - \$4.1M**

National Insurance Crime Bureau April 14, 2020

2019/2020 Budgeting Time Line



- 70% attributed to industry adjustment
- 30% increase attributed to prior city claims

Needed Supplemental Appropriation

Premium Item	2020 Budget	2020 Actual	Variance
Work Comp	165	179	(14)
Liability	696	468	228
Property	346	1220	(874)
Total	1207	1866	(660)

1. Does the Council Finance Committee support a supplemental appropriation of \$660K for increased insurance premiums coming forward to Council at the 11/17 Meeting?