Financial Management Policies

Note: The Financial Management Policies will be updated for the FY 2011 Adopted Budget document in accordance with the results of the Cost Allocation Plan and User Fee Study.

Statement of Purpose

The financial integrity of our City government is of utmost importance. To discuss, write, and adopt a set of financial policies is a key element to maintaining this integrity. These financial management policies are designed to ensure the fiscal stability of the City of Rockville and to guide the development and administration of the annual operating and capital budgets, as well as the debt program.

Written, adopted financial policies have many benefits, such as assisting the Mayor and Council and City Manager in the financial management of the City, saving time and energy when discussing financial matters, promoting public confidence, and providing continuity over time as Mayor and Council and staff members change. While these policies will be amended periodically, they will provide the foundation and framework for many of the issues and decisions facing the City. They will promote wise and prudent financial management, provide the foundation for adequate funding of services desired by the public, and help make the City more financially stable, efficient, and effective.

Objectives

1. Assist the Mayor and Council and City management by providing accurate and timely information on financial conditions pertinent to City operations.
2. Provide sound financial principles with which to guide the important decisions of the Mayor and Council and management, which have significant fiscal impact.
3. Set forth operational principles that minimize the cost of government and financial risk, to the extent consistent with services desired by the public.
4. Enhance the policy-making ability of the Mayor and Council by providing accurate information on program costs.
5. Ensure the legal use of all City funds through a sound financial system and strong internal controls.
6. Employ revenue policies that diversify revenue sources, distribute the costs of municipal services fairly, and provide adequate funds to operate desired programs.

In order to meet these objectives, the City's policies are divided into eight general categories for ease of reference. These categories include: 1) Operating Budget Policies, 2) Capital Improvement Program (CIP) Policies, 3) Revenue and Expenditure Policies, 4) Reserve Policies, 5) Debt Management Policies, 6) Cash Management/Investment Policies, 7) Accounting, Auditing, and Financial Reporting Policies, 8) Productivity Policies. It is recommended that all policies included in this document be adhered to.

OPERATING BUDGET POLICIES:

At least one month before the preparation of the proposed annual budget, the City Manager will meet with the Mayor and Council members to review and deliberate all policy guidelines that may affect the proposed budget.

1. The budget is approved in the form of an appropriations ordinance after the Mayor and Council have conducted at least one advertised public hearing.
2. The operating budget and CIP together shall serve as the annual financial plan for the City. They will serve as the policy documents of the Mayor and Council for implementing Council visions, goals and objectives. The budget shall provide staff with the resources necessary to accomplish the Mayor and Council's determined service levels.
3. The City Manager shall annually prepare and present a proposed operating budget to the Mayor and Council at least two months before the beginning of each fiscal year; and Mayor and Council will adopt said budget no later than May 31 of each year. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the Mayor and Council.
4. The City defines a **balanced budget** as a budget that has operating revenues equal to operating expenditures. It is the City's policy to fund current year operating expenditures with current year revenues, inclusive of debt service. General Fund expenditures may exceed revenues in a given year only when the additional spending is funded by beginning fund balance and only for CIP expenditures or other one-time or non-recurring expenditures, as authorized by the Mayor and Council.
5. Each department and division prepares its own budget for review by the City Manager. Budget accountability rests primarily with each department. The basic format of the budget shall identify programs within organizational structures. Programs are defined as specific services provided to the public, other departments or other organizations.
6. *The Operating Budget is adopted at the fund level.* During the year, it is the responsibility of the City Manager, Department Directors, and the Budget and Finance Manager to administer the budget. The legal control, which the budget ordinance establishes, uses Generally Accepted Accounting Principles (GAAP).

7. As a management policy, budgetary control is maintained in the General, Special Revenue, and Enterprise Funds at the program level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders that result in overruns of balances are not processed until sufficient appropriations are made available through approved intrafund transfers. Encumbered amounts at year-end are recorded as a reservation of fund balance and are reflected as an adjustment to the ensuing year's budget.
8. A five-year projection of revenues and expenditures for the General, Special Revenue, and Enterprise Funds is prepared each fiscal year to provide strategic perspective to each annual budget process.
9. All appropriations shall lapse at the end of the budget year if not expended or encumbered.
10. Any year-end operating surpluses will revert to fund balances for use in maintaining reserve levels set by policy (see policy on reserves) and the balance will be available for pay-go capital projects and/or one time capital outlays.
11. The City Manager will submit budgetary reports to the Mayor and Council comparing actual revenues and expenditures with budgeted amounts quarterly.

Budget Transfers:

The City Manager has the authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for any given fund can only be enacted by the Mayor and Council through an amendment to the appropriations ordinance.

1. All budget transfers must receive approval by the Department Director, and Budget and Finance Manager regardless of the budget transfer amount. In addition, any budget transfer over $50,000 requires City Manager approval.
2. City Manager approval is required for transfers from one department to another.
3. Approval of the budget transfer must be obtained prior to requisition, encumbrance or expenditure of funds taking place.

Interfund Transfers and Loans:

1. Any interfund transfers between funds for operating purposes can only be made by the Chief Financial Officer with City Manager approval in accordance with the adopted budget.
2. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year.
3. Interfund transfers result in a change in fund equity; interfund borrowings do not, as the intent is to repay the loan in the near term.

Fund Structure:

1. The accounts of the City are organized into funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures (or expenses, as appropriate).
2. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be expended and the means by which spending activities are controlled. The City uses governmental funds and enterprise funds. Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balance of the City's expendable financial resources and the related liabilities (except for those accounted for in the enterprise funds) are accounted for through governmental funds.
3. The City's governmental funds are the General Fund, the Special Revenue Funds, the Capital Projects Fund, and the Debt Service Fund.
   - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
   - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by legal and regulatory provisions or budgeted contributions from outside sources to finance specific activities. The City's Special Revenue Funds are the Special Activities Fund, the Community Development Block Grant Fund, Town Center Management Fund and the Speed Camera Fund.
   - The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities and general capital construction, including: streets, parks, and public buildings (other than those financed by enterprise funds).
   - The Debt Service Fund, which includes special assessments, is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

4. The enterprise funds are the Water Fund, the Sewer Fund, the Refuse Fund, the Parking Fund, the Stormwater Management Fund, and the RedGate Golf Course Fund.
5. Creation of new funds should be based on the following criteria:

   I. The revenue source is ongoing; i.e., more than one fiscal year.
   II. The amounts to be recorded are material.
   III. Interest income is required to be allocated.
   IV. The amounts are specifically designated.
   V. There is not another fund that can be used to account for the revenue source.
   VI. There are special circumstances that have led management to create a separate fund.
   VII. If the State or Federal government requires a separate fund to account for a particular source of revenue then such a fund can and must be created.
   VIII. It is a requirement of GAAP to establish the fund.

Basis of Budgeting:

1. Budgets for governmental and enterprise (or proprietary) funds are adopted on a basis consistent with Generally Accepted Accounting Principles. Accordingly, all governmental fund budgets are presented on the modified accrual basis of accounting. Under this method of accounting, revenue and other governmental fund resources are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both "measurable and available" to finance current operating expenditures for the fiscal period.
2. In applying the susceptible to accrual concept to real and personal property tax revenue recognition, "available" means property tax revenue is recognized currently if levied before the fiscal year end and collected by intermediaries within 60 days after the fiscal year end. Utility and franchise fees, licenses and permits, fines and forfeitures, charges for services, and miscellaneous revenue (except investment earnings) are recorded as revenue when cash is received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available.
3. For grant revenue such as the Community Development Block Grant (CDBG) program, which is dependent upon expenditures by the City, revenue is accrued when the related expenditures are incurred. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which are recognized when due.
4. The enterprise fund budgets are presented on the full accrual basis of accounting. Under this method of accounting, revenue is recognized when earned and expenses are recognized when they are incurred. For example, earned but unbilled utility revenues are accrued and reported in the financial statements the same way they are incorporated within the operating budget. Enterprise fund capital purchases are budgeted in the operating budget and recorded as expenses during the year; at year-end, they are capitalized for financial statement purposes.

CAPITAL IMPROVEMENT PROGRAM (CIP) POLICIES:

With the operating budget, the City Manager submits a CIP to the Mayor and Council. This document provides for improvements to the City's public facilities for the ensuing fiscal year and four years thereafter, and forms part of the City's financial plan. The first year of the plan establishes a capital budget for the new fiscal year. The remaining four years serve as a guide for use in determining probable future debt issuance needs and operating cost impacts. *The Capital Budget is adopted at the fund level*. CIP expenditures are accounted for in the Capital Projects Fund or the appropriate enterprise funds and are funded by a variety of sources. The City strives to maintain a high reliance on "pay-go" financing for its capital improvements in order to maintain debt within prudent limits, and to ensure that the rates charged in the enterprise funds are competitive with those in the surrounding area. For projects to be included within the CIP, they should normally be eligible for debt financing, and have a defined beginning and end, as differentiated from ongoing programs in the operating budget.

To qualify as a CIP project, one of the following six criteria must be met:

I. The acquisition of land for a public purpose.
II. The construction of a significant facility, i.e. a building or road, or the addition to or extension of an existing facility.
III. Nonrecurring rehabilitation or major repair to all or part of a facility, such as infrequent repairs that are not considered to be recurring maintenance, provided the total cost per fiscal year is more than $100,000.
IV. Any specific design work related to an individual project falling within the above three categories.
V. Any long-term project funded through a grant where the establishment of a CIP project is a condition of the grant, regardless of the amount of funding per fiscal year.
VI. A significant one-time investment in tangible goods of any nature, the benefit of which will accrue over a multi-year period such as a new phone system or vehicle acquisitions over $100,000.

Financial Management Policies

1. Annually, a five-year Capital Improvements Program (CIP) plan will be developed analyzing all anticipated capital expenditures by year and identifying associated funding sources. The plan will also contain projections of how the City will perform over the five-year period in relation to the fiscal policies that refer to debt ratios.
2. The first year of the five-year (CIP) and any unspent funds from prior years will be appropriated as part of the annual budget process. The CIP will be appropriated by fund. At least semi-annually, the City Manager will notify the Council of any transfers between projects within a fund.
3. The City will maintain a Capital Projects Monitoring Committee composed of City staff, which will meet not less than once every six months to review the progress on all outstanding projects as well as to revise spending projections. Each CIP project will have a project manager who will prepare the project proposal sheet, ensure that project is completed on schedule, authorize all project expenditures, and ensure that all regulations and laws are observed. Project managers will be responsible for reporting project status to the committee.
4. If new project appropriation needs are identified at an interim period during the fiscal year, at the fund level, the appropriations ordinance will be utilized to provide formal budgetary authority for the increase. Any significant impact resulting from the change on the overall CIP and on the debt ratios will be indicated at that time.
5. The City shall actively pursue funding, other than borrowing, from other levels of government or from private sources for all projects for the CIP where practical to do so.
6. Capital Projects shall be prioritized according to goals set by the Mayor and Council.
7. Unexpended project appropriations may be transferred to other projects within the same funding source with the approval of the City Manager.
8. Each year, a closing resolution will be submitted to the Mayor and Council to obtain formal authorization to close completed capital projects. The unexpended appropriations for these projects will be returned to the fund from which the appropriations were made. A report showing the amounts budgeted, expended, transferred and returning to fund balance shall be provided.

REVENUE AND EXPENDITURE POLICIES:

1. The City will strive to develop and maintain a diversified and stable revenue stream to avoid becoming overly dependent on any single type of revenue, to minimize the effects of economic fluctuations on revenues and ensure its ability to provide for ongoing services.
2. Budgeted revenues shall be estimated conservatively using accepted standards and estimates provided by the State, County and other governmental agencies when available.
3. Revenue from “one-time” or limited duration sources will not be used to balance the City’s operating budget.
4. As appropriate within the marketing of the recreation programs, higher non-resident fees may be charged and priority registration will be given to Rockville residents.
5. Restricted revenue shall only be used for the purposes legally permissible and in a fiscally responsible manner.
6. On an annual basis, the City will set fees and rates for the enterprise funds at levels which fully cover total direct and indirect operating costs, and all capital outlay and debt service, except where the City is not the sole provider of the service and competitive rates must be taken into consideration. In these instances, fees and rates must at least cover all direct and indirect operating expenses.
7. The City shall actively pursue Federal, State, County and other grant opportunities when deemed appropriate. Before accepting the grant, the City shall thoroughly consider the implications in terms of ongoing obligations, indirect costs and matching requirements in connection with the grant.
8. Gifts, bequests and donations will be evaluated to determine what, if any, obligations are to be placed upon the City. Gifts, bequests and/or donations shall be used solely for the purpose intended by the donor.
9. General Fund revenues in an amount of $20,000 annually are to be set aside in accordance with resolution 20-85 that are dedicated to the upkeep and furnishing of Glenview Mansion. $20,000 is the maximum amount of General Fund revenue to set aside. Expenditures can only be authorized by the Director of Recreation and Parks as recommended by the Glenview Mansion Subcommittee.
10. An amount equal to one percent of the City’s costs for capital projects involving the construction of, or major improvements to, buildings, parks and other public structures is to be transferred annually from the General Fund to the Art in Public Architecture program in support of ordinance 3-04, pending appropriation by the Mayor and Council.
11. An amount equal to $1 per capita is to be transferred annually from the General Fund to the Art in Public Places program pending appropriation by the Mayor and Council.

User Fee Cost Recovery Goals:

Fees for services will be reviewed and updated on an ongoing basis to ensure that they keep pace with inflation. In addition, fees need to be updated for changes in methods or levels of service delivery to ensure that they are appropriate and equitable for all users.

In order to implement this goal, a comprehensive analysis of City costs and fees should be undertaken at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index (CPI). Fees may be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, or level of cost of service delivery. General concepts to be followed are:

- Revenues should not exceed the reasonable cost of providing the service.
- Cost recovery goals should be based on the total cost of delivering the service, including direct costs, indirect costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, IT, insurance etc.
- The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- Rate structures should be sensitive to the “market” for similar services as well as to smaller, infrequent users of the service.

Development Review Programs:

Services under this category include Planning, Building and Safety, and Engineering. Cost recovery goals for these services in most instances should be 100 percent. However, in charging at this level, the City needs to clearly establish and articulate standards for its performance in reviewing developer applications to ensure that there is “value for cost.”

Recreation and Park Programs:

Fees are reviewed annually by the Recreation and Parks Advisory Board. The fees that fall into this category are user fees of public recreation facilities and programs, rental fees for use of public grounds and facilities, admission fees for public events, special service fees for extraordinary items, vendor fees for the privilege of selling goods and services on public property, and development review fees associated with the Forest and Tree Preservation ordinance. In addition to these fees, grants and other financial contributions from businesses and other levels of government support recreation and parks programs.

The level of cost recovery is based on different service levels provided throughout the community as follows:

Basic Services, Parks and Facilities:

These services include operation and maintenance, open space and recreation facilities, neighborhood and Citywide parks, greenways, trails, right-of-way islands and landscaping including street trees, playgrounds, non-reservation amenities and other similar public facilities, maintenance operations facilities, as well as overall department administrative activities. These services primarily serve to support individual and small-group non-reserved/non-consumptive/non facility-based amenities and recreation activities.

No cost recovery is associated with the following functions. These services are provided to the community with funds derived from tax revenues.

These activities include but are not limited to:

- Parks
- Skate Park
- Hiking
- Playgrounds
- Picnic areas
- Fishing
- Trails
- Bike paths
- Right-of-way landscaping
- Facility landscaping
- Nature observation
- Urban forestry maintenance
- Trail and pathway activities
- Outdoor courts
- Informal games
- Undesignated play areas
- City uses for activities, meetings, etc. with no associated revenue
- Dog Park

Community Benefit – Core Programs, Services and Facilities:

These services include core or basic recreation programs, activities and events which utilize parks, recreation facilities and other public spaces, providing benefits to the entire community or a large portion thereof, are not routinely provided by the private sector and are partially supported by fees and charges. These are considered to provide a baseline level of service and can be considered to enhance the quality of life for Rockville residents.

Community Benefit programs and facility uses are expected to recover approximately 25 percent of direct costs from fees, sponsorships and grants. Supplemental funding is provided via tax dollars.

These activities include but are not limited to:

- Civic Association/HOA uses of neighborhood community centers
- Drop-in use of facilities such as Civic Center, recreation centers, community centers, Senior Center, Nature Center
- Citywide special events including Memorial Day Parade and Independence Day, and Town Center Festivals
- At-risk youth programs
- Senior Social Services
- Basic after-school programs
- Senior transportation services
- Outdoor performing arts series
- Community special events
- Art galleries
- Farmers' Market
- Therapeutic recreation programs
- Grant supported programs
- Teen social clubs and dances
- Seasonal programs and events

Community/Individual Benefit Services:

These services provide benefits that accrue both to the community at large as well as to the individual served. They are available to all; however, space, time, consumptive use, cost of supply and other factors may limit or preclude participation. On occasion the private sector, in particular non-profits, may offer some of these services. Due to the limitations listed above and especially to "cost of supply" circumstances, these services have been designated to recover a substantial percentage of direct and indirect costs. In some special circumstances, full cost recovery may be warranted.

Community/Individual Benefit programs and facility uses are expected to recover between 25 percent and 100 percent of direct costs and up to 25 percent of indirect costs. Supplemental funding is provided as necessary and appropriate with tax dollars.

These activities include but are not limited to:

- Introductory or basic skill level activities of all types for all ages
- Swim and Fitness Center facility and program use (memberships, daily admissions, classes, swim team, etc.)
- Citywide special events – Hometown Holidays concerts, Eggstravaganza, car show, road races
- Adult sports leagues
- Youth sports leagues, including partner non-profit leagues
- Recreation/Community center programs and rentals
- Summer Playgrounds
- Senior citizen recreation programs
- Senior citizen sports and fitness programs
- Concert Band, Community Chorus, RRYO, Civic Ballet
- Resident Companies at F. Scott Fitzgerald Theater

Individual Benefit Services:

These services are defined as those products/processes for which benefits accrue almost entirely to the individual, group or organizational participant/consumer. They may be available to the entire city population or beyond, but substantial limitations on space, time consumption and cost have the effect of restricting use. The private sector can supply these services or they are provided through public/private partnerships. Due to "cost of supply" factors these services are required to fully recoup direct costs, up to 100 percent of indirect costs, and in some cases a pro-rata share of allocated costs. Fees are often established based on the appropriate local market demand. Tax supported funding is minimal.

These activities include but are not limited to:

- Fitness facilities within recreation centers, Rockville Swim and Fitness Center, Senior Center, etc.
- Licensed childcare programs
- Intermediate and advanced skill development activities for youth and adults
- Trips and tours – all ages
- Outdoor adventure activities
- Summer camps – all types
- Advanced or select-level team sports for youth and adults
- Private use/rentals of City facilities
- Retail sales/concessions

Financial Management Policies

RESERVE POLICIES:

The City utilizes a variety of funds for recording the revenue and expenditures of the City. At each fiscal year end, operating surpluses that revert to fund balance over time constitute available reserves of the City.

General Fund:

1. The City will maintain an unreserved General Fund fund balance at a level not less than 15 percent of annual General Fund revenue. The purpose of this unreserved balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to residents. This is the minimum level necessary to maintain the City's credit worthiness and maintain adequate cash flows. Use of funds below the 15 percent required level must be approved by specific action of the Mayor and Council.
2. To the extent that the unreserved General Fund fund balance exceeds the target, the City may draw upon the fund balance to provide pay-go financing for capital projects or for other one-time capital items.
3. The Mayor and Council may designate parts of the available fund balance that would represent tentative management plans rather than actual restrictions on the use of resources.

General Fund Contingency Account:

A contingency account equal to a maximum of 1 percent of the City's General Fund budgeted appropriations will be maintained annually in the non-departmental budget. This account will be available for unanticipated, unbudgeted expenditures of a non-recurring nature and/or to meet unexpected cost increases that require City Manager approval. All spending from the contingency account shall be reported to the Mayor and Council quarterly.

Enterprise Funds:

The City will maintain as reserves working capital balances of 90 days of operating expenses. In addition, the water and sewer funds will maintain a repair, renewal, and replacement reserve of a maximum of 1 percent of the book value of assets.

The City's refuse fund will maintain as reserves a working capital balance of 30 days.

Enterprise funds with a negative cash balance should develop plans that will allow the fund to show a positive cash balance within five years, and rates and fees should be set accordingly.

Debt Service Fund:

The City will maintain a minimum fund balance equal to the average annual outstanding principal on the City's debt service schedule.

DEBT MANAGEMENT POLICIES:

1. Debt management will provide for the protection of bond rating, the maintenance of adequate debt service reserves, compliance with debt covenant provisions and appropriate disclosure to investors, underwriters and rating agencies.
2. The term of any City debt issue, including lease-purchases, shall not exceed the useful life of the assets being acquired by the debt issue.
3. All debt issuance shall comply with Federal, State and City charter requirements and adhere to Federal arbitrage regulations.
4. The City shall maintain an ongoing performance monitoring system of the various outstanding bond indebtedness issues and utilize this monitoring system as a performance criterion for the administration of the City's outstanding indebtedness. This is particularly important as funds borrowed for a project today are not available to fund other projects tomorrow and funds committed for debt service payments today are not available to fund operations in the future.
5. The City will maintain good, ongoing communication with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).
6. Accompanying each debt issue will be an assessment of the City's capacity to repay the debt. The assessment will address the effects on the current operating budget, as well as identify the resources that will be utilized to repay the debt.
7. Long-term borrowing will not be used to finance current operations or normal maintenance and will only be considered for significant capital and infrastructure improvements.
8. The City will try to keep the average maturity of general obligation bonds at or below twenty years.
9. The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.
10. The City will not issue tax or revenue anticipation notes.
11. The City will strive to maintain a high reliance on pay-go financing for its capital improvements.

12. **Neither Maryland State law nor the City Charter mandates a limit on municipal debt.** However, the City will strive to maintain its net tax-supported debt at a level not to exceed 1.0 percent of the assessed valuation of taxable property within the City.
13. The City will strive to ensure that its net tax-supported debt per capita does not exceed $700. The City will strive to ensure that the combined total of its direct net bonded debt and its attributed share of overlapping debt issued by Montgomery County does not exceed $2,000 per capita.
14. The City will strive to ensure that its net tax-supported debt per capita as a percentage of Federal adjusted gross income does not exceed 2.5 percent.
15. The City will maintain its annual net tax-supported debt service costs at a level less than 15 percent of the combined expenditure budgets (net of interfund transfers) for the General, Special Revenue, and Debt Service Funds.
16. The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.
17. Debt service coverage ratios will be calculated annually for all of the City's enterprise funds. A minimum of a 1.2 coverage ratio should be maintained for each of the enterprise funds.

Refinancing:

Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered (within Federal tax law constraints) under the following conditions:

I. There is a net economic benefit.

In general, refinancings for economic savings will be undertaken whenever net present value savings of at least 5 percent of the refunded debt can be achieved.

Refinancings that produce net present value savings of less than 5 percent will be considered on a case-by-case basis, provided that the present value savings are at least 3 percent of the refunded debt.

Refinancings with savings of less than 3 percent will not be considered unless there is a compelling public policy objective.

II. It is needed to modernize covenants that are adversely affecting the City's financial position or operations.

III. The City wants to reduce the principal outstanding in order to achieve future debt service savings, and it has available working capital to do so from other sources.

CASH MANAGEMENT/INVESTMENT POLICIES:

1. Investments and cash management will be the responsibility of the Chief Financial Officer.
2. City funds will be managed in accordance with the prudent person standard with the emphasis on safety of principal, liquidity, and yield, in that order.
3. Investments of the City will be made in accordance with the City's adopted Investment Policy.
4. The City is authorized to invest in any and all types of investments, as described in State Finance and Procurement Article 6-222(a) or Article 95, section 22-22N of the Annotated Code of Maryland, except where specifically prohibited by Maryland statutes.
5. The City will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.
6. The Chief Financial Officer shall present reports of the City's investments and cash position quarterly to the Mayor and Council.
7. All cash is combined into one pooled operating account to facilitate effective management of the City's resources, and to maximize yield from the overall portfolio.
8. Interest earnings shall be allocated to funds with a positive cash balance based on the average of the past six months cash balances by fund.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES:

1. It will be the policy of the City of Rockville to provide all financial information in a thorough, timely fashion and in a format that is easy for the Mayor and Council, Citizens, Committees and City employees to understand and utilize.
2. The City's accounting finance systems will be maintained in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).
3. The basis of accounting within governmental fund types used by the City of Rockville is modified accrual as well as the "current resource measurement focus." Under this method of accounting, revenue is recorded when susceptible to accrual, such as when measurable and

available for the funding of current appropriations. All enterprise funds follow the accrual basis of accounting, as well as the "capital maintenance measurement focus." Under this method of accounting, revenues are recognized when earned, as billed and unbilled, and expenses are recorded when incurred.

4. The City places continued emphasis on maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable, but not absolute, assurances regarding both the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and reports, such as the budget and the *Comprehensive Annual Financial Report (CAFR) as* well as the maintenance of accountability of assets.
5. An independent audit of the City of Rockville is performed annually. The auditor's opinion will be included in the City's CAFR. The City will strive for an unqualified auditor's opinion.
6. An independent audit firm will be selected through a competitive process at least once every five years. The Mayor and Council will award the audit contract upon the recommendation of the City Manager and Chief Financial Officer.
7. The City of Rockville issues a CAFR within four months of the close of the previous fiscal year. It will be presented to the Mayor and Council within six months of the fiscal year end at a regularly scheduled City Council meeting. The CAFR will be submitted annually to The Government Finance Officers Association (GFOA) for peer review as part of the *Certificate of Achievement for Excellence in Financial Reporting* program. All reports prepared by the auditors, and management's response to those reports will be presented to the Mayor and Council at a regularly scheduled Council meeting within six months of the fiscal year end.
8. The City offers its employees a defined benefit pension plan and a defined contribution pension plan. The plans are administered by the Retirement Board comprised of seven members appointed by the Mayor and Council to serve two-year terms.
9. The retirement plans do not issue separate financial statements, but plans shall be included as part of the City's financial statements and accordingly be subjected to an annual audit.
10. The City's annual contribution toward the pension plans shall be determined by an independent actuary and published as an annual actuarial report. The City will annually meet its obligation to funding its share of the pension plan contribution out of its operating budget.
11. Beginning in FY09 the City will prefund its retiree health benefits in accordance with GASB 45 based upon an actuarial valuation study. The study shall be completed every other year, and the City will achieve full funding over a five-year period.

PRODUCTIVITY:

Fiscal responsibility and accountability to the community are two values embodied within the "ROCKVILLE WAY" of providing premium services to the community. To this end, the City will constantly monitor and review our methods of operation to ensure that services continue to be delivered in the most cost effective manner possible. This review process encompasses a wide range of productivity issues, including:

I. Analyzing systems and procedures to identify and remove unnecessary review requirements.
II. Evaluating the ability of new technologies and related capital investments to improve productivity.
III. Developing the skills and abilities of all City employees.
IV. Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
V. Evaluating the ability of the private sector to perform the same level of service at a lower cost.
VI. Periodic formal reviews of operations on a systematic ongoing basis.
VII. Encouraging accountability by delegating responsibility to the lowest possible level.
VIII. Stimulating creativity, innovation and individual initiative.
IX. Improving the organization's ability to respond to changing needs, and identify and implement cost-saving programs.
X. Assigning responsibility for effective operations and citizen responsiveness to the department.