ANOKA

REAL. CLASSIC.

City Council - Worksession
Monday, October 24, 2016 - 5:00 p.m.
Council Worksession Room

(meeting will not be cablecast)

1. CALL TO ORDER

2. ROLL CALL

3. COUNCIL BUSINESS and/or DISCUSSION ITEMS
   - 3.1 Downtown Security/City-wide Activity.
   - 3.2 Discussion; Street Renewal Program-Assessment Rates.
   - 3.3 Update; Financial Management Plan and Practices.
   - 3.4 Development Update.

4. ADJOURNMENT

WORKSESSION AGENDA ITEM MEMO

Meeting Date	10-24-2016
Agenda Section	Council Business/Discussion Item
Item Description	Downtown Security/City-wide Activity

BACKGROUND INFORMATION

This item will be an Agenda Item on all Council agendas through December 2016.

The item is to provide an opportunity for Council to have a general discussion on items related to the Downtown security and other City-wide activity.

Please remember that any discussion that develops into the need for formal Council action should be placed on a future Regular or Special Meeting agenda.

COUNCIL DIRECTION REQUESTED

General discussion only.

COUNCIL WORKSESSION MEMO

3.2

Meeting Date	October 24, 2016
Agenda Section	Council Business/Discussion
Item Description	Street Renewal Program – Assessment Rates
Submitted By	Ben Nelson, Engineering Technician

BACKGROUND INFORMATION

In 2015 the assessment rates were increased about 4% and last year the assessment rates were increased about 6% for Street Renewal Program by staff recommendations. Prior to that, the assessments had not been increased since 2010. Historically, our assessment rates were increased annually.

Based on the average Construction Cost Index (CCI) published by *Engineering News-Record,* from 2015 to 2016; overall, general construction costs on average have increased approximately 2.8%.

FINANCIAL IMPACT

Increased rates will raise assessments and will increase revenue to the SRP funds which will help support future projects. The City Council should note if no assessment increase is propose for 2017, next year's SRP projects would be approximately 20% funded by assessments.

COUNCIL DIRECTION REQUESTED

Below are three options for the 2017 assessment rates based on a typical 80' residential lot:

NO INCREASE	2016	2017 PROPOSED
Unit Assessment ($/lot)	$3,020	$3,020
Footage Assessment ($/foot)	$16	$16
Water Service	$1,090	$1,090
Sanitary Sewer	$980	$980
Typical 80' lot	**$6,370**	**$6,370**

SEWER & WATER INCREASE (1.6%)	2016	2017 PROPOSED
Unit Assessment ($/lot)	$3,020	$3,020
Footage Assessment ($/foot)	$16	$16
Water Service	$1,090	$1,135
Sanitary Sewer	$980	$1,035
Typical 80' lot	**$6,370**	**$6,470**

2.8% INCREASE (based on the CCI)	2016	2017 PROPOSED
Unit Assessment ($/lot)	$3,020	$3,110
Footage Assessment ($/foot)	$16	$16
Water Service	$1,090	$1,120
Sanitary Sewer	$980	$1,010
Typical 80' lot	**$6,370**	**$6,520**

Staff is seeking direction from the City Council regarding the proposed assessment rates in 2017.

Service Cost Comparison
2015 Average Bid Prices to 2016 Average Bid Prices

Water Service Comparison	2015 Construction Cost	2016 Construction Cost	Construction Cost Percent Changed	2015 Unit Assessment	2016 Unit Assessment	Assessment Unit Percent Changed
1" Residential Water Service	$1,355	$1,380	1.8%	$1,025	$1,090	6.3%
6" Commercial Water Service	$2,650	$3,200	20.8%			

Sewer Service Comparison	2015 Construction Cost	2016 Construction Cost	Construction Cost Percent Changed	2015 Unit Assessment	2016 Unit Assessment	Assessment Unit Percent Changed
4" Residential Sewer Service	$1,070	$1,105	3.3%	$925	$980	5.9%
6" Commercial Sewer Service	$1,270	$1,305	2.8%			

COUNCIL WORKSESSION MEMO

3.3

Meeting Date	October 24, 2016
Agenda Section	Council Business/Discussion Items
Item Description	Update; Financial Management Plan and Practices
Submitted By	Lori Yager, Finance Director

BACKGROUND INFORMATION

In 2012, the City Council approved the Financial Management Plan and Practice. About every four-five years this plan should be discussed and updated to keep the information current and relevant with the current City Council goals and objectives. The Financial Management Plan and Practice is geared toward long-term goals and objectives the city is striving to achieve and to outline the financial path to attain those goals.

Staff has taken the current plan and updated in red the items that have been changed.

Is the updated plan still focused in the right direction?
Are there additional goals or objectives that have not been included that should be incorporated?
Comment on general direction of attaining long-term goals of the city.

COUNCIL ACTION REQUESTED

Provide input to improve the financial management plan document. The plan will be before the council for adoption in November or December depending on changes.

Financial Management Plan and Practice

CITY OF ANOKA

October 2016

CITY OF ANOKA, MINNESOTA
2016 FINANCIAL MANAGEMENT PLAN AND PRACTICE
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FINANCIAL MANAGEMENT PLAN AND PRACTICE
CITY OF ANOKA

INTRODUCTION

This Financial Management Plan serves two main purposes: it draws together, in a single document, the City of Anoka's major financial policies and establishes principles to guide both staff and Council members to make consistent and informed financial decisions.

The financial management plan provides a tool to continue the city's strong financial history and to reach the vision for the future. It addresses and reviews financial issues facing the city and makes a plan to meet the needs of the community. The plan is a tool which should provide the Council and the public insight to address issues impacting the City's financial condition.

The Financial Plan describes City policy and practice in the following areas:

1. Revenue Management
2. Cash and Investments
3. Reserves
4. Operating Budget and Compensation Philosophy
5. Capital Improvement Plans
6. Housing and Redevelopment Authority
7. Debt Management
8. Accounting, Auditing and Financial Reporting
9. Risk Management

The objectives of this Financial Plan are:

- To provide both short term and long term future financial stability by ensuring adequate funding for providing services needed by the city;
- To protect the City Council's policy-making ability by ensuring that important policy decisions are not dictated by financial problems or emergencies;
- To provide sound principles to guide the decisions of the City Council and management;
- To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, distribute the cost of municipal services fairly, and provide adequate funding to operate desired programs;
- To provide essential public facilities and prevent deterioration of the City's public facilities and infrastructure;
- To protect and enhance the City's credit rating and prevent default on any municipal debt;
- To create a document that staff and Council members can refer to during financial planning, budget preparation and other financial management issues.

BACKGROUND

Financial management is a constant effort to balance revenues and expenditures for the city. Financial management goals are to make the best use of resources to serve the community. Planning examines the ability to meet this objective.

Financial planning includes budgeting, financial reporting and historical trends. It also examines needs and opportunities that are beyond the end of the next fiscal year. Allocating funds for one project may eliminate sources needed for others. The city has taken a comprehensive examination of the financial issues facing Anoka. The objectives have always been to maintain the high quality of service provided to the community, increase the tax base to spread the tax burden, ensure appropriate green space, improve infrastructure and maintain financial stability.

The city improved upon its' financial management planning by adopting the five year capital improvement plan and the five year equipment replacement plan annually. These documents provide further support of the financial management plan.

Financial planning includes anticipating tax rate changes for future operating and capital needs. Tax rates are determined by inflation or deflation on existing properties and new development or loss of existing properties. Another factor in the tax rate is legislative changes which can influence the calculation of net tax capacity such as; classification of properties, fiscal disparity distribution and fiscal disparity contribution.

Revenues control many municipal decisions. How much funding is available? Are the taxpayer/user fee impacts acceptable? These answers will shape spending decisions. There are several primary revenue sources for the city, they are:

1. Property taxes, tax increment and assessments
2. User fees or charges for services.
3. Franchise fees
4. Intergovernmental revenues
5. Enterprise earnings

Expenditures are the result of the city goals and objectives to meet ~~the community~~ needs. The goals and objectives fall into the following categories:

1. Services provided through the general fund including police, fire, public services, community development and administration.
2. Investment in infrastructure throughout the city.
3. Providing public buildings, parks, recreational facilities and other facilities desired by the residents of Anoka.
4. Clean, safe drinking water and reliable affordable electricity.
5. Support investment in enterprise efforts.

The city has issued debt for capital improvements. When debt is issued, future revenues are needed to repay the debt.

Planning recognizes that environments and communities change. Development and redevelopment also change~~s~~ the base ~~in~~ which the city can draw from. Demographics influence the need for services and the ability to pay. An aging physical environment requires more investment in rehabilitating existing infrastructure and community redevelopment. The property tax system, aid programs, debt authority, and economic development tools are all derived from the state. The legislature can change the power and resources of the city.

REVENUE MANAGEMENT

It is essential to responsibly manage the City's revenue sources to provide maximum service value to the community. The most important revenue policy guidelines established by the City Council are for the two major sources of city revenue: property taxes and fees/charges.

A. Property Taxes

- When discussing property taxes, the City should simultaneously explore other revenue and expenditure alternatives that will maximize the City's future financial flexibility and ability to provide services. This may include considering options such as debt management, fees and charges, cost allocation, use of reserves for capital outlay, transfers from enterprise funds and expenditure cuts.

Possible factors for considering an increase in property tax include:

- Maintenance or expansion of City services.
- Long-term protection of the City's infrastructure.
- Meeting legal mandates imposed by outside agencies.
- Maintaining adequate fund balance and reserve funds sufficient to maintain the City's bond rating.

Property tax increases to meet other purposes will be based on the following criteria:

- A clear expression of community need.
- The existence of community partnerships willing to share resources.
- Capacity

B. Service Fees and Charges

The City considers service fees and charges wherever appropriate for the twin purposes of keeping the property tax rate at a minimum and to fairly allocate the full cost of services to the users of those services. As an example of appropriate cost allocation, service fees and charges broaden the base to include tax exempt properties, which still have municipal costs associated with the property. Specifically, the City may:

- Establish utility rates sufficient to fund both the operating costs and the long-term depreciation and replacement of the utility systems.
- As part of the City's enterprise effort, evaluate City services and aggressively pursue actions to accomplish the following:

    - Find community based partners to share in service delivery.
    - Make services financially self supporting or, when possible, profitable.
- Annually review City services and identify those for which charging user fees are appropriate. Included as part of this process may be a market analysis that compares our fees to comparable market cities.
- Identify some enterprise services as entrepreneurial in nature. The intent of entrepreneurial services will be to maximize revenues to the extent the market allows.
- Waive or offer reduced fees to youth, seniors, community service groups, and other special population groups identified by the Council as requiring preferential consideration based on policy goals.

Selected criteria are used to determine the specific rate to charge for a fee for service. The rate criteria can be one **or a combination** of five approaches:

1. Market Comparison
   Attempt to set fees that are comparable to existing markets.
2. Maximum set by External Source
   Fees set by legislation, International Building Code, etc.
3. Entrepreneurial Approach
   Fess will be set to provide profitable margins within enterprise funds
4. Recover the Cost of Service
   Program will be self-supporting.
5. Utility Fees
   A rate study will be updated or reviewed every five years for electric. All other rates are reviewed annually by finance and projections are communicated with staff and council.

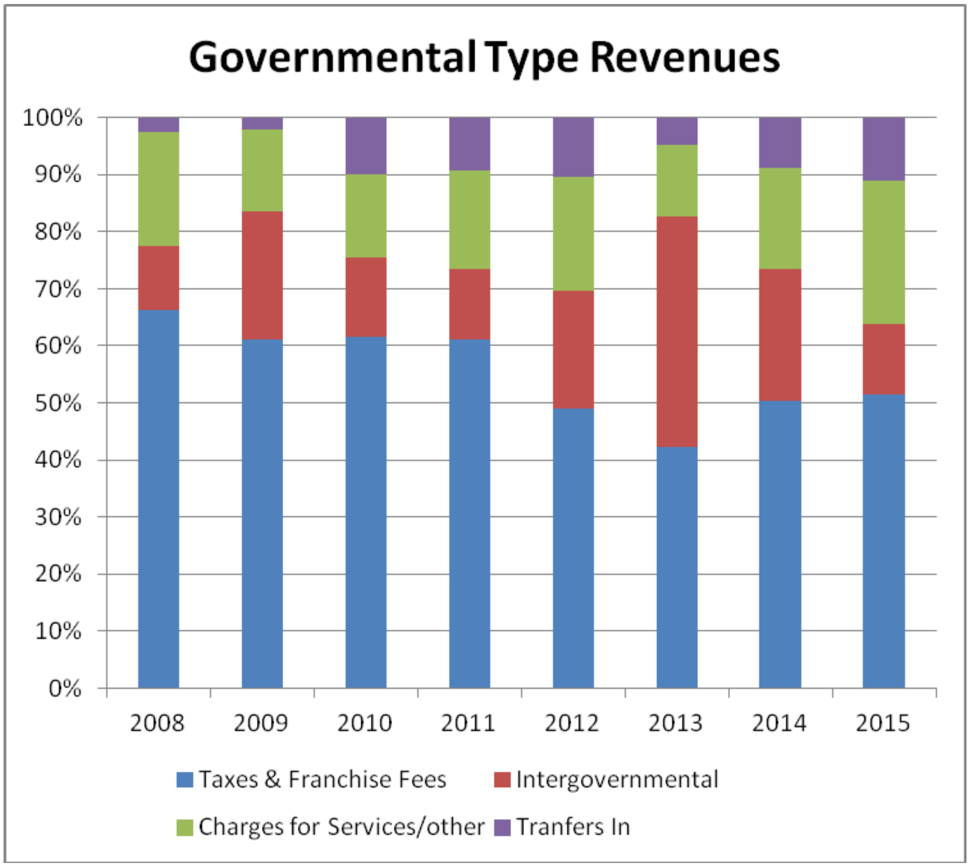
C. Non-recurring Revenues

Several revenue sources, such as intergovernmental revenues, one-time grants, court fines and other non-recurring revenues are outside of direct City control and must be relied upon conservatively. The Finance Director shall insure that the budget preparation process includes an evaluation of all major non-recurring revenues, in order to minimize reliance on unpredictable revenues for on-going operating costs.

GOVERNMENTAL TYPE REVENUES

The ability to raise revenue to support the goals and objectives of the City are key to financial planning. Understanding the sources of revenues is very important. Slightly more than 51% of governmental fund type revenues ~~now~~ come from taxes and franchise fees. This compares to just above 66% seven years ago. Transfers from other funds and charges for service revenues have increased to offset tax increases. Intergovernmental revenue represented 10% of total revenues seven years ago and it is the same percentage today. Transfers from other funds represented only 3% seven years ago and today it is 11% of total governmental revenues. Charges for services and miscellaneous revenues have increased to 25% of total governmental revenues compared to 20% seven years ago. Overall revenues have increased 6% a year over the last seven years in governmental funds.

Below is a graph depicting governmental fund type revenues and how they have changed over the past seven years.



Growth Projections

Anoka is almost fully developed. There are a few ~~large~~ parcels remaining to be developed. What remains is expected to be developed within fifteen ~~thirty~~ years. Continued development and redevelopment will increase residential and commercial tax base.

The financial management plan projects growth for residential units at 20 residential units per year with average sales value of $250,000. Commercial development is estimated to grow at **10,000 square feet every third year with an assessor's value *of $100*** per square foot of building. Commercial growth is expected to diminish over the next ten years. Commercial and residential developments are expected to add less than 1% per year to the tax base.

It is ~~assumed~~ anticipated that governmental type revenues will continue to increase at about 2% per year with the exception of intergovernmental revenues which will remain fairly flat bringing down the total increase in revenues to 1.5%. It is also assumed that Business type revenues will increase about 3% per year, the majority of which is derived from Electric charges for services.

CASH AND INVESTMENTS

Effective cash management is essential to good fiscal management. Investment returns on funds not immediately required can provide a ~~significant~~ source of revenue for the City. Investment policies must be well founded and uncompromisingly applied in their legal and administrative aspects in order to protect the City funds being invested. The city's entire investment policy is included in the appendix of this document. The policy is reviewed annually by council and management. Following are some main points included in the document.

A. Purpose

The purpose of this policy is to establish the City's investment objectives and establish specific guidelines that the City will use in the investment of city funds. It will be the responsibility of Chief Financial Officer to invest city funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio. Investments will be made, based on statutory constraints, in safe, low risk instruments.

B. Scope/Funds

This policy applies to the investment of all city funds available for investment and not needed for immediate expenditure. The City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

C. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with the investment policy included in appendix A.

General Objectives

- Safety of principal is the most important objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to minimize the risk of market fluctuations, such credit risk and interest rate risk. Credit risk is the risk that the borrower will be unable to make their debt service payments to the investor. Interest rate risk is the risk that rates will (for example) rise while the investments you hold have lower rates – if the City were to sell their investments prior to maturity in this case, they would have to sell the investments at a loss.
- The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
- A variety of investment vehicles must be used so as to minimize the risk of loss. The investment portfolio must be diversified by individual financial institution, government

agency, or by corporation (in the case of commercial paper) to reduce the exposure to risk of loss.

- Investment maturity dates should vary in order to ensure that the City will have money available when it needs it.
- The investment portfolio shall be designed with the objective of attaining market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above.

Oversight

- Authority to manage and operate the investment program is granted to the Finance Director. No person may engage in an investment transaction, except as provided under the terms of the investment policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of internal controls to regulate the activities of subordinate officials.

  The Finance Director shall prepare an investment report quarterly, including a management summary that provides a clear picture of the status of the current investment portfolio. This management summary will be prepared in a manner, which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the City Manager and will include the following:

  - A listing of individual securities held at the end of the reporting period.
  - Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of the securities.
  - Listing of investments by maturity date.
  - Quarterly the city council reviews

Suitable and Authorized Investments

Investments by the City are restricted to the permissible investments under Minnesota Statutes 118A.04 and 118A.06. (See detailed policy in Appendix).

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business or that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the city.

Internal Controls, Audits, External Controls

- The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to ensure that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by management.
- Accordingly, compliance with City policies and procedures should be assured by the Finance Director, and addressed through by the annual audit (CAFR) process.

RESERVES

The City strives to maintain prudent financial operations to ensure stable city operations for the benefit of city residents and businesses. Fund balance reserves are an important component in ensuring the overall financial health of a community, by giving the City cushion to meet contingency or cash-flow timing needs. The Office of the State Auditor recommends that at year-end, local governments maintain an unassigned fund balance in their general fund and special revenue funds of approximately 35 to 50% of fund operating revenues, or no less than five months of operating expenditures. While the bond rating agencies do not have recommended fund balance levels, the agencies look favorably on larger fund balances, which protect against contingencies and cash flow needs.

In addition, this policy integrates and further defines the City of Anoka's governmental fund balance classifications to be in compliance with Governmental Accounting Standards Board Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions.

II. POLICY

- The City will maintain an unassigned General Fund balance of not less than 30% of budgeted operating expenditures; however, this need could fluctuate with each year's budget objectives.

- Annual proposed budgets shall include this benchmark policy. Council shall review the amounts in fund balance in conjunction with the annual budget approval, and make adjustments as necessary to meet expected cash-flow needs.

- In the event the unassigned General Fund balance will be calculated to be less than the minimum requirement at the completion of any fiscal year, the City shall plan to adjust budget resources in the subsequent fiscal years to bring the fund balance into compliance with this policy.

- The appropriated budget is prepared by fund, department and object. The City's department heads, with the approval of the City Manager, may make transfers of appropriations within or between departments. The legal level of budgetary control is at the fund level.

- The City Council may consider appropriating (for authorized purposes) year-end fund balance in excess of the policy level or increasing the minimum fund balance. An example of preferred use of excess fund balance would be for one-time expenditures, such as capital expenditures, which do not result in recurring operating costs.

- Appropriation from the minimum fund balance shall require the approval of the City Council and shall be used only for non-recurring expenditures, unforeseen emergencies or immediate capital needs that cannot be accommodated through current year savings. Replenishment recommendations will accompany the decision to utilize fund balance.

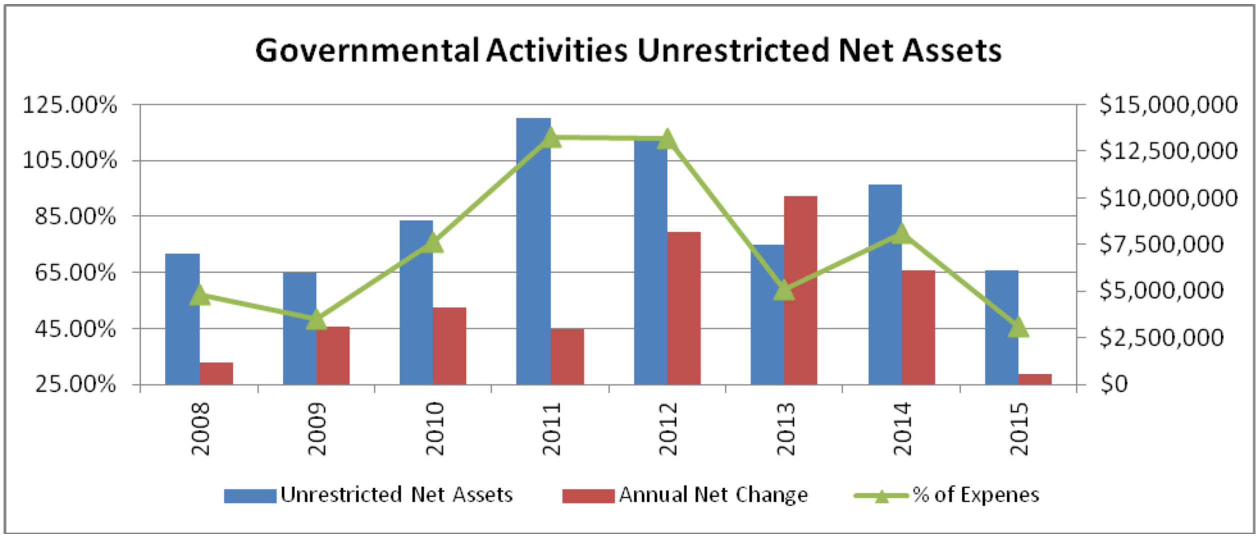
- At the discretion of the City Council, fund balance may be committed for specific purposes by resolution designating the specific use of fund balance and the amount. The resolution would need to be approved no later than the close of the reporting period and will remain binding unless removed in the same manner.

- The City Council authorizes the Finance Director and/or City Manager to assign fund balance that reflects the City's intended use of those funds.

- When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, than use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1. Committed 2. Assigned and 3. Unassigned.

ANOKA FUND BALANCES

Annually the city analyzes reserves to ensure that fund balances are adequate. The city has a fund balance policy it follows. The chart on the next page shows the trends for city's governmental type unrestricted net assets.



The general fund balance in the City of Anoka is an important tool for financial management.

- General fund balance have not been (cannot be) used to offset ongoing deficiencies in operating revenues.
- Excess annual funds that can be used for future capital investment should be transferred to capital funds.
- The city's goals are to have unassigned general fund balance ~~should be~~ of at least three to five months of annual expenditures. This provides funds for cash flow management needs of the city. The city receives tax distributions twice a year in June and December.

OPERATING BUDGET

The Operating Budget is the annual financial plan for funding the costs of City services and programs. The Operating Budget includes the General and Special Revenue Funds. Enterprise operations are budgeted in separate Enterprise Funds as well as debt and capital expenditures.

The City Manager shall submit a balanced budget in which appropriations shall not exceed the total of the estimated revenues and available fund balance.

The City will provide for all current expenditures with current revenues. The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' budgets.

The City Manager will coordinate the development of the capital improvement budget with the development of the operating budget. Operating costs associated with new capital improvements will be projected and included in future operating budget forecasts.

The budget will provide for adequate maintenance of the capital plant and equipment, and for their orderly replacement.

The impact on the operating budget from any new programs or activities being proposed should be minimized by providing funding with newly created revenues whenever possible.

The City Manager will insure that a budgetary control system is in place to adhere to the adopted budget.

The Finance Department will provide departments with monthly reports comparing actual revenues and expenditures to the budgeted amounts.

The operating budget will describe the major goals to be achieved and the services and programs to be delivered for the level of funding provided.

In addition to operating expenses, Enterprise funds shall be budgeted to provide for guidance of operations and replacement costs of property, plant, and equipment, if appropriate, and for establishing rates and charges for services.

ANOKA OPERATING NEEDS

The city provides for its programs and services primarily through ~~their~~ employees. Current levels include – City Manager, 9 Department Heads, 10 Supervisors, 109 full and part-time employees. The city is ~~not~~ anticipating some ~~any~~ changes in staff levels over the next few years. Operating expenditures are projected to increase about 2% per year. Departments within the general fund include City Council, City Manager, Community Development, Elections, Finance & Assessing, Fire, Human Resources, Legal, Municipal Building Maintenance, Planning & Inspections, Police and Public Services.

FINANCING ENTERPRISE FUNDS ENTERPRISE INFRASTRUCTURE

The City of Anoka has eight enterprise funds including electric, water, sewer, storm water, liquor, golf, refuse and recycling. The city's goal is that enterprises be self supporting.

<u>Electric</u>
The electric utility is a huge success for the City of Anoka and its customers. The ultimate goal of the electric department is to provide reliable consistent electric energy at a reasonable cost. Electric customers of the city consistently pay less for electric services than Xcel Energy or Connexus customers. At the same time, the electric utility has continued to be ~~been~~ profitable in recent years and contributed to the general and capital funds of the City of Anoka. It has provided internal loans to other funds within the city, if needed. The City Council has established a rate stabilization fund to offset future large fluctuations in power costs. Currently there is $1,500,000 in the rate stabilization fund. The electric utility is building up liquid assets for future spending on infrastructure and a new electric and public services building. Estimates of the total for both investments are about $12 million. The city anticipates ~~an electric~~ a $.01 increase in the electric rate to help offset future infrastructure costs.

Water

The water utility issued bonds in 2001 for a new well. The final payment for this bond will occur in 2017. Annually the water utility pays for operating costs and infrastructure improvements related to the street renewal projects and water utility needs. The city plans to make water utility improvements through 2022, including a new well. The city anticipates issuing debt in 2019 to help cover the costs of the new well. According to projected cash flows, the city should consider increasing water rates in 2022 to cover continued infrastructure improvements and debt service payments. ~~a water rate increase of 6.5% to help cover these costs. The water revenue debt will be paid off in 2017.~~

Sewer

The sewer utility pays for operating and infrastructure improvements related to the street renewal projects and sewer utility needs. The city participates in the Metropolitan Council regional sewer treatment system, and the fees paid to the Met Council are the largest expense in the operating system. The city will consider a sewer rate increase of $2 per month for on average customer in 2017 to help offset these costs. There is a need for a lift station improvement on Seventh Avenue in 2019 resulting in the necessity to issue debt to cover this cost. In contrast to the water utility, the sewer utility should increase rates every ~~three~~ year~~s~~ through 2021 to cover costs. ~~by up to 6%.~~

Storm Sewer

The city implemented a storm water ~~sewer~~ utility fee in 2003 to help pay for the storm water improvements ~~sewer costs~~ related to the street renewal projects. In 2016, the city issued storm water revenue bonds to pay for infrastructure improvements. Storm water ~~sewer~~ rates are projected to increase every ~~three~~ year~~s~~ by the maximum allowed increase to keep up with the related infrastructure costs, debt service payments and build storm water ~~sewer~~ reserves.

Liquor

Liquor stores continued to be profitable and have kept taxes down by contributing to park capital. ~~as well as supporting the golf operation~~. Liquor store operations will contribute less to park capital in the future as a result of reduced profits. It will be necessary to do an in-depth analysis of liquor store operations and profitability in the very near future before further expansion is considered. Cost of operations is projected to exceed revenues within twelve years. Serious consideration should be given to selling the stores before 2029 when operations are projected to exceed revenues.

Golf

In ~~2008, the golf fund issued debt to improve the club house facility and improve the course irrigation system.~~ 2014, the city transferred the existing clubhouse operations and debt into the general governmental funds. In 2016, the city transferred all remaining debt for irrigation into the general governmental funds. Currently the only revenues and expenditures reported in the golf fund are strictly for golf operations~~. Projecting into the future the golf fund will require transfers from other funds until 2016.~~ Council and management continue to examine whether golf is an enterprise or an amenity, similar to the ~~parks and~~ Aquatic Center.

Refuse and Recycling

The refuse fund is primarily a billing function for outside waste contractors. The city does not control refuse rates. The city charges refuse contractors for billing services. The city administers a residential recycling program ~~throughout the city~~. The actual pick up services are contracted out. The city receives SCORE funds from Anoka County to help cover costs in managing the residential recycling program. Recycling rates are charged to all residential properties in Anoka. Rates may increase in ~~2013~~ 2018 and in ~~2016~~ 2021 depending on the recycling contract. Anoka does not anticipate recycling will ever be self supporting.

CAPITAL IMPROVEMENT PLAN (CIP)

The demand for services and the cost of building and maintaining the City's infrastructure continues to increase. No city can afford to accomplish every project or meet every service demand. Therefore, a methodology must be employed that provides a realistic projection of community needs, the meeting of those needs, and a framework to support City Council prioritization of those needs. That is the broad purpose of the CIP.

The CIP includes the scheduling of public improvements for the community over a five-year period and takes into account the community's financial capabilities as well as its goals and priorities. A "capital improvement" is defined as any major nonrecurring expenditure for physical facilities of government. Typical expenditures are the cost of land acquisition or interest in land, construction of roads, utilities and parks. Vehicles and equipment are covered separately under the Equipment Replacement Plan (ERP). The CIP is directly linked to goals and policies, land use, and community facility sections of the Comprehensive Plan since these sections indicate general policy of development, redevelopment, and the maintenance of the community.

CIP Development Process

- Compile and prioritize projects. Staff will consolidate and prioritize recommended projects into the proposed Capital Improvement Plan.
- Devise proposed funding sources for proposed projects. Recommended funding sources will be clearly stated for each project.
- Project and analyze total debt service related to the total debt of the City.
- A debt study will be provided summarizing the combined impact of all the existing and proposed debt.

On an annual basis, the City Council will evaluate the proposed CIP and decide on the following:

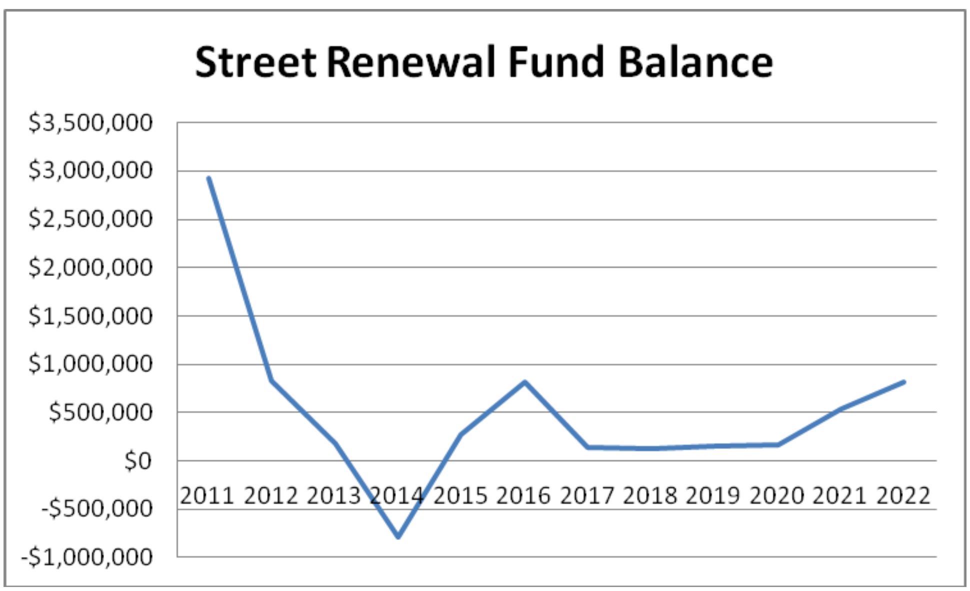
- Project Prioritization
- Funding Source Acceptability
- Acceptable Financial Impact on Tax Levy, Total Debt, and Utility Rate Levels
- As of ~~2011~~ 2016, debt levies fall outside of levy limits.
  (See sample CIP Street schedule in Appendix B)

FINANCING CAPITAL PROJECTS

The City has the responsibility and opportunity to reinvest in Anoka via street improvements, housing and commercial property enhancements, park improvements and building improvements, which all improve values and create an improved standard of living for all Anoka residents and property owners. The city maintains its infrastructure and property improvements through the capital improvement process to meet the needs of the city. The Capital Improvement Plan is prepared and updated annually.

<u>Street Renewal</u>
The city has an existing pavement management program that identifies streets over the next ten years that need full reconstruction or reclamation. Reclamation and reconstruction occur based on street condition and funding sources. Reclamation extends the life of a street by twenty five years. Reconstruction occurs approximately once every sixty years. Anoka's streets are aging. Reclamation projects have become necessary to improve streets without incurring full street reconstruction costs. Mill and overlay are also part of the street pavement program.
The city has paid for street reconstruction and reclamation with assessments, franchise fees, transfers from general and electric funds, interest earnings and municipal state aids. The city typically assesses up to 25% of the street reconstruction project, following the assessment policy. Street reconstruction projects are typically assessed over a ten year period. When the city reconstructs a state aid eligible street it may use state aid construction funds. The city has a franchise fee which provides approximately ~~$340,000~~ $360,000 annually for street reconstruction.

When excess revenues over expenditures occur in either the general fund or electric fund the council can consider transferring those excess funds to the street renewal fund to help pay for reclamation projects or future reconstruction projects. The city has not had to issue debt to finance its' pavement improvement program. Below are historic and future fund balance figures for the street renewal fund.



The city ~~is using~~ used fund balance to reconstruct its' East Main Street in 2012. ~~It is projected to take at least twenty years to rebuild fund balance levels back to historic levels of about $3,000,000~~. The city recommenced ~~and increased~~ its franchise fee in ~~2012~~ 2016. The franchise fee sunsets on December 31, ~~2015~~ 2019. Without this fee future street renewal projects will need to be funded in another manner. Increased special assessments and transfers from other funds will be necessary to complete the street projects proposed in 2017 – 2019 ~~are possible~~. The city may also issue bonds and levy taxes to complete street renewal projects in the future.

Park Capital and Improvements

There are ~~three~~ two improvement funds dedicated to park improvements, including the park dedication and park capital ~~and aquatic capital~~. The park dedication fund is funded with park fees paid during development or redevelopment. The focus of this fund is on new or improved parks for developments or redevelopment areas. The park capital fund relies on transfers from other funds and interest earnings as sources. The city liquor fund has historically funded park capital improvements throughout the city. Staff is recommending that the water fund will also support park capital in the future as a result of decreased support from liquor. Existing fund balance and the sale of ~~Castle Field~~ property on 11th Avenue could ~~will~~ provide sources for near term park capital improvements.

Building and Capital and Improvements

This fund has provided sources for building improvements for city hall, police and public services. There has been a transfer in from the electric fund almost annually. This transfer is projected to continue into the future. ~~The future~~ Under consideration for ~~this~~ funding ~~source is the possibility of remodeling city~~ is the new golf/park maintenance facility which includes a new dog pound. This construction will require either a bond issue or funding from electric. Other projects include building improvements to park structures and city hall. A new public service/electric building is also being considered for the future. Funding sources would likely include electric, water, sewer and a G.O. bond issue.

Equipment Replacement

The city has a garage fund which services and replaces all governmental fund type equipment. Enterprise funds schedule and replace their equipment with their own resources. The garage fund is primarily funded with tax dollars through an equipment charge to the general fund. The charge covers the cost of replacement and maintenance of vehicles and equipment that are related to general fund services. The council has the ability to manage funding of the equipment replacement plan by postponing equipment purchases:

Fiscal Year	General ~~Fund~~ Charges
2015	~~$539,630~~ $591,065
2016	~~$553,120~~ $650,165
2017	~~$566,950~~ $665,170
2018	~~$581,125~~ $708,405
2019	~~$595,655~~ $754,450
2020	$777,085
2021	$796,515

These amounts may fluctuate based on actual equipment replacement costs and needs versus planned replacement. ~~There is a proposed transfer from the general fund in 2016 of $750,000 to cover some larger planned equipment replacements.~~

COMMUMITY DEVELOPMENT

Tax Increment Financing

Tax increment financing has enabled the city to use a portion of the property taxes generated by redevelopment areas to finance certain redevelopment expenses. The use of tax increment has been an important tool for the City of Anoka in redevelopment and will continue to play a role in the future. The Enterprise TIF district ~~will be~~ was decertified on December 31, 2015. ~~Careful planning is needed to invest the available funds in projects that will not occur without the use of tax increment and will have the greatest impact on Anoka's future~~. ~~A majority of~~ the remaining funds in the enterprise park TIF district~~,$10,579,000~~ $5,400,000 have been assigned to pay the off the balance of the internal loan from the electric department and to pay down a substantial amount of the bonds issued for the historic rum river parking ramp. Funds available include future sales of property held in the district and internal lending to other TIF districts to be paid back in the future. ~~This leaves approximately $2,000,000 to utilize in a project within the plan area.~~

Currently the city has ~~three~~ four active tax increment districts and the HRA has three. Expenditure of tax increments must be authorized in the TIF plan and budget. As depicted below, the majority of funds in the various TIF districts have been committed to pay off internal or external debt.

The table below summarizes the TIF districts of the City and the HRA .

TIF DISTRICT	DECERTIFICATION	COMMITTED FUNDS	UNCOMMITTED FUNDS
Enterprise Park	12/31/2015	~~$10,183,000~~ $5,400,000	~~$1,625,000~~ $0
Historic Rum River	12/31/2032	~~$4,200,000~~ $3,830,000	~~$1,200,000~~ $0
South Ferry District	12/31/2033	~~$0~~ $1,630,000	$0
CRTV District	12/31/2039	$5,300,000	$225,000
Greens of Anoka	12/31/2040	$6,600,000	$2,200,000
HRA Redevelopment	12/31/2017	$0	~~$2,000,000~~ $1,600,000
HRA Central Business	12/31/2032	~~$0~~ $255,000	~~$ 275,000~~ $0
HRA So. Central Bus.	12/31/2042	$995,000	$2,350,000

Development and Redevelopment

~~The city sold a parcel of land that has been tax-exempt for 99 years. This new development is anticipated to jump start the commuter rail transit village project, which will be the newest tax increment district in the city. Funds from this district will clean up and prepare properties for redevelopment in and around the commuter rail transit station. The city also has property in its northern boundary that is vacant and prime for development. The planning commission, along with the city council, are working toward an overall plan for this area to enable staff to market it~~

~~to developers~~. The city continues its efforts to redevelop its downtown historic rum river district which is in a TIF district that supports payment of debt on the historic rum river ramp construction. A Senior Cooperative building is in the process of being constructed in this district. The city has also added valuable tax capacity through a large housing development in the northern section of the city. There is still existing property in this area to be developed. Regarding redevelopment, the HRA has an opportunity to redevelop land it has purchased one block off of Main Street in the downtown area. Walker Plaza has already built a senior apartment and memory care center in the downtown area. Other areas ready for investment include the Greens of Anoka TIF district which includes the highland park neighborhood and areas around the golf course and the Commuter Rail Transit Village which surrounds the Northstar commuter train station. Both areas have great potential for future redevelopment.

Housing

Anoka's housing stock is aging. ~~In 200~~03, The city has ~~adopted~~ property maintenance standards that require properties to be maintained to a minimum level. In 2016, the city ~~also~~ hired a police officer to provide rental inspection support. ~~inspector and~~ The city also adopted a rental license fee to cover some of the costs of rental inspections. This move has improved properties throughout the city and has allowed the city to become more aware of existing property conditions. The Anoka Housing and Redevelopment Authority also plays a significant role in housing maintenance and clean up through its scattered site redevelopment programs and loan and grant programs.

HOUSING AND REDEVELOMENT AUTHORITY

The Housing and Redevelopment Authority (HRA) was created by the City to carry out certain development projects within the city. The governing board is appointed by the City Council. There are five members on the HRA board.

Among the HRA powers in Minnesota law is the authority to collect a "special benefits" tax up to 0.0144 percent of taxable market value in the City. The HRA follows all the policies established by the City. Of note, the HRA is a separate levy, and is not subject to the statutory levy limits.

The HRA, with approval by the City Council, shall annually appropriate money to the HRA from a tax levy or other available source. The appropriation shall be equivalent to the "maximum" that could be provided by a tax levy for housing and redevelopment purposes. The annual tax levy shall be set based on the amount needed when combined with other available sources to achieve~~s~~ the funding level needed to accomplish the goals of the HRA.
Expenditures may be made from the HRA based on the following criteria:

A. The HRA appropriates the funds as part of the annual budget, or
B. The HRA authorizes an amendment to the HRA budget outside of the annual appropriation process.

DEBT MANAGEMENT

The use of borrowing and debt is an important and flexible revenue source available to the City. Debt is a mechanism which allows capital improvements to proceed when needed, in advance of when it would otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies.

Debt management is an integral part of the financial management of the City. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by the City must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance the City's credit rating. A goal of debt management is to stabilize the overall debt burden and future tax levy requirements to ensure that issued debt can be repaid and prevent default on any municipal debt. A debt level which is too high places a financial burden on taxpayers and can create problems for the community's economy as a whole.

Wise and prudent use of debt provides fiscal and service advantages. Overuse of debt places a burden on the fiscal resources of the City and its taxpayers. The following guidelines provide a framework and limit on debt utilization:

1. The City will weigh the benefits and costs of long-term borrowing for planned capital improvements (see CIP) and short-term debt for capital outlay.
2. The City should strive to avoid using long-term debt for current operations.
3. When considering financing of capital expenditures, the City may consider paying cash for capital financing as well as debt financing.
4. The City will pay back debt within a period not to exceed the expected useful life of the projects, with at least 50% of the principal retired within 2/3 of the term of the bond issue.
5. The City will maintain good communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure in every financial report and bond prospectus.
6. The City (by itself or with a financial advisor) will track and identify opportunities for restructuring or refinancing debt.
7. When feasible, the City will use refunding mechanisms to reduce interest cost and evaluate the use of debt reserves to lower overall annual debt service where possible. The City's goal has been to quantify the impact of potential future debt on the debt service levy, and on various categories of property taxpayers (or other revenue derived customers).

~~During the budget process, the Council may review whether a debt study is necessary to be prepared in conjunction with the Capital Improvements Plan to provide information about the City's debt structure. In deciding whether to include a Debt Study, the Council will use such factors as how long it has been since the last Debt Study, if there have been material changes to the CIP, or if a large amount of debt is expected in the near future.~~

The ability to incur and support debt is an important part of the financial management plan. Debt can provide the capacity to meet infrastructure needs. Debt allows the city to spread the cost of infrastructure across current and future taxpayers who will benefit most from the infrastructure projects. The capacity of the city to borrow money is more dependent on the ability to raise the revenues needed to pay debt service than on a definable debt limit.

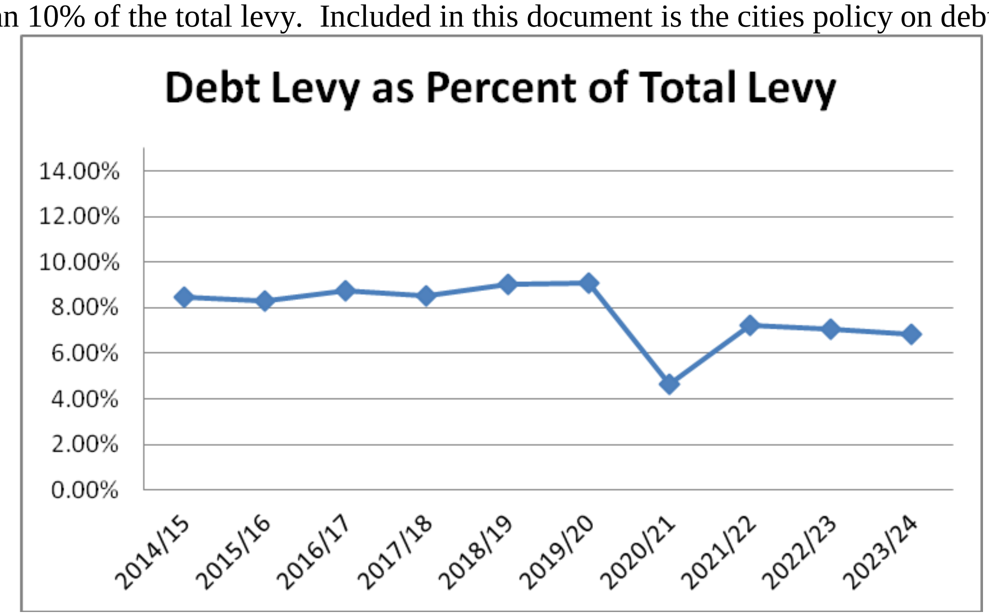
The city has been able to do a tremendous amount of infrastructure improvements with very little debt. The city will consider issuing debt to help pay for a new public services facility in the near future.

Existing Debt

The chart on the following page summarizes the existing debt for the City of Anoka. At this time none of the existing debt is under consideration for advance refunding due to the rates and call dates of the bonds.

Outstanding Debt – City of Anoka				
Issue	Dated	Outstanding	Maturities	Call Date
GO Tax Increment Crossover Refunding Bonds	~~6/29/06~~ 8/14/14	~~$7,710,000~~ $6,115,000	~~February 1, 2012-2033~~ February 1, 2015-2033	~~2/1/2016~~ 2/1/2025
GO Public Facility Refunding Bonds	12/27/10	$3,395,000	February 1, 2012-2022	none
GO Water Revenue Refunding Bonds	3/18/09	$1,245,000	February 1, 2012-2017	none
GO Public Facilities Refunding Bonds	~~3/13/08~~ 4/16/16	~~$2,065,000~~ $1,510,000	~~February 1, 2012-2028~~ February 1, 2017-2028	2/1/25
GO Utility Revenue Bonds	8/10/16	$1,795,000	February 1, 2017-2034	2/1/25

Cities frequently measure debt burden by measuring their debt levy as a percent of their total levy. The chart below shows that the City of Anoka plans to manage debt to keep the debt levy at less than 10% of the total levy. Included in this document is the cities policy on debt issuance.



ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

The key to effective financial management is to provide accurate, current, and meaningful information about the City's operations to guide decision making and enhance and protect the City's financial position.

1. The City's accounting system will maintain records on a basis consistent with generally accepted accounting standards and principles for local government accounting as set forth by the Government Accounting Standards Board (GASB) and in conformance with the State Auditor's requirements per State Statutes. This allows for modified accrual for populations exceeding 2,500, or cash basis for smaller communities.
2. The City will establish and maintain a high standard of accounting practices.
3. The City will follow a policy of full disclosure written in clear and understandable language in all reports on its financial condition.
4. The Finance Department will provide timely monthly and annual financial reports to users.
5. An independent public accounting firm will perform an annual audit and issue an opinion on the City's financial statements.
6. Annually the City Council and staff will meet with the Auditors to review the audit report.
7. ~~Periodic~~ Quarterly financial reports on budget performance will be provided to the City Council ~~quarterly~~.

RISK MANAGEMENT

A comprehensive risk management plan seeks to manage the risks of loss encountered in the everyday operations of an organization. Risk management involves such key components as risk avoidance, risk reduction, risk assumption, and risk transfers through the purchase of insurance. The purpose of establishing a risk management policy is to help maintain the integrity and financial stability of the City, protect its employees from injury, and reduce overall costs of operations.

1. The City will maintain a risk management program that will minimize the impact of legal liabilities, natural disasters or other emergencies through the following activities:
a) Loss prevention - prevent losses where possible
b) Loss control - reduce or mitigate losses
c) Loss financing - provide a means to finance losses
d) Loss information management - collect and analyze data to make prudent prevention, control and financing decisions
2. The City will review and analyze all areas of risk in order to, whenever possible, avoid and reduce risks or transfer risks to other entities. Of the risks that must be retained, it shall be the policy to fund the risks which the City can afford and transfer all other risks to insurers.
3. The City will maintain an active safety committee comprised of City employees.
4. The City will periodically conduct educational safety and risk avoidance programs within its various divisions.

5. The City will, on an ongoing basis, analyze the feasibility of self funding and other cooperative funding options in lieu of purchasing outside insurance in order to provide the best coverage at the most economical cost.
6. Staff will report to the Council, annually on the results of the City's risk management program for the preceding year.

ON-GOING ACTIONS

Periodic review of the City's financial plan is important. Implementing the financial management plan is an on-going activity for staff and the City Council.

1. Prepare annual financial management documents as required by State Law and city policy.
   - Annual Budget
   - Annual Financial Report
2. Prepare annual funding projections and plan for projects.
   - Five Year Capital Improvement Plan
   - Equipment Replacement Plan
3. Monitor new legislation which may impact city operations and finances.
4. Prepare annual projections of property valuations, tax levies and tax rates.
5. Conduct annual review of outstanding debt to determine necessary revenue adjustments and potential to call or refinance bonds.

GLOSSARY OF TERMS

ACCRUAL ACCOUNTING The basis of accounting which recognizes revenues as they are earned and expenses as soon as a liability is incurred, regardless of related cash inflows and outflows.

AD VALOREM TAX A tax which is based on value, such as property taxes.

ASSIGNED FUND BALANCE Amounts a government intends to use for a specific purpose; intent can be expressed by the government body or by an official or body to which the governing body delegates the authority. This would include any remaining positive fund balance in all funds other than the general fund. The City Finance Director or his/her designee shall have the authority to assign fund balance. Examples include all special revenue fund balances that are not restricted or committed.

AUDIT An annual third party review of financial operations and procedures required by State Statutes.

BALANCED BUDGET A budget in which the sources of funds (revenues) is equal to the uses of funds (expenditures).

BASIS OF ACCOUNTING The technical term that describes the criteria governing the timing of the recognition of transactions and events.

BONDS A written promise to pay a sum of money at specified dates, including interest at a designated time.

BONDED DEBT The portion of City debt represented by outstanding bonds.

BUDGET A financial operations plan of proposed expenditures for a given period of time and the proposed revenues to finance them. Proposed expenditures must equal proposed revenues.

CAPITAL IMPROVEMENT PLAN (CIP) A plan for capital expenditures to be incurred each year for a fixed period of years and the estimated resources to finance the projected expenditures.

CAPITAL OUTLAY Expenditures resulting from the acquisition of fixed assets.

CAPITAL PROJECTS FUND A fund established to account for financial resources to be used for the acquisition or construction of major capital facilities.

COMMITTED FUND BALANCE Amounts that are constrained by City Council resolution for a specific purpose. Fund balance commitment resolutions must be completed before December 31st to be effective for that fiscal year and remain in effect until the commitment is changed or eliminated by Council resolution.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) The official annual report of a government which includes combined financial statements, supporting schedules, supplementary information, extensive introductory information, and a statistical section.

DEBT An obligation resulting from the borrowing of money or the purchase of goods or services.

DEBT SERVICE FUND A fund established to account for the payment of principal and interest on debt of the City.

EMPLOYEE SERVICES The portion of the budget pertaining to employee salaries and related fringe benefits.

ENTERPRISE FUND A fund established to account for the financing of services to the general public where all or most of the costs involved are recovered primarily through user fees. (City enterprise funds are water and sewer, ice center, golf course, and storm drainage).

EXPENDITURES Disbursements for operating costs, debt service, capital outlay.

FIDUCIARY FUNDS A classification of funds that is used to account for resources that are held by the government as a trustee or agent for parties outside the government and that cannot be used to support the government's own programs.

FISCAL DISPARITIES Is a tax sharing pool created to distribute dollars to areas with modest tax capacity values.

FISCAL YEAR The twelve month period to which the annual budget applies and at the end of which the City determines its financial position. The City's fiscal year is January 1^{st} to December 31^{st}.

FIXED ASSETS Long-term tangible assets which are "fixed" in nature, such as building, land, and equipment.

FUND BALANCE The difference between assets and liabilities reported in a governmental fund.

FUND An accounting entity with a self-balancing set of accounts in which assets, liabilities, and equity are recorded for a specific activity or objective.

FUND BALANCE The difference between fund assets and fund liabilities. The fund balance can be used as a revenue source by decreasing an existing positive balance.
GENERAL FUND This fund is used to account for all general operations of the City which are necessary to provide basic governmental services.

GENERAL OBLIGATION BONDS (G.O. BONDS) Bonds that are backed by the full faith and credit of the City.

GENERAL OPERATING BUDGET The part of the operating budget which includes the general, special revenue, and capital funds. (Excludes the enterprise funds)

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) Uniform minimum standards and guidelines for financial accounting and reporting. The primary authoritative body on the application of GAAP to state and local governments is the Governmental Accounting Standards Board (GASB).

GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) A nonprofit finance professional association serving over 12,600 government finance officials.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) A seven-member board which is responsible for setting governmental accounting standards.

GOVERNMENTAL FUNDS A classification of funds that is typically used to account for tax-supported (governmental) activities. Included in this classification are the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

GRANT A contribution of cash or other asset from a government or other organization for a specified purpose, activity, or facility.

INFRASTRUCTURE Immovable assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems that are of value only to the City.

INTERGOVERNMENTAL REVENUE Revenues from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

INTERNAL SERVICE FUND A fund established to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

LEVY The total amount of taxes or special assessments imposed by the City.

LOCAL GOVERNMENT AID (LGA) Unrestricted funds distributed to Cities by the State of Minnesota.

MARKET VALUE The value determined by the County Assessor for real estate or property used for levying taxes.

MODIFIED ACCRUAL ACCOUNTING The basis of accounting which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Revenues are recognized to the degree that they are available to finance expenditures of the fiscal period. Similarly, debt service payments and a number of specific accrued liabilities are only recognized as expenditures when payment is due because it is only at that time that they normally are liquidated with expendable available financial resources.

NET ASSETS The difference between assets and liabilities in the government-wide statement of net assets.

NONSPENDABLE FUND BALANCE   Amounts that are not in a spendable form or are required to be maintained intact. Examples include prepaid items, inventory, land held for resale, and long-term receivables that are not otherwise restricted, committed, assigned, or offset by deferred revenue.

OPERATING BUDGET The annual financial plan for funding the costs of providing services and programs.

OTHER CURRENT EXPENSES The portion of the budget relating to general operations (supplies, maintenance, utilities, etc) excluding employee salaries.

PARKS CAPITAL FUND A fund established to account for revenues and expenditures for the purchase and maintenance of city parks.

PROGRAM An activity or operation created to achieve a specific purpose or objective.

PROPRIETARY FUND A classification of funds that is used to account for a government's business-type activities which are supported, at least in part, by fees or charges. Included in this classification are enterprise funds and internal service funds.

RESERVES Funds set aside for unanticipated expenditures or unforeseen emergencies, as well as to have adequate working capital for current operating needs to avoid short-term borrowing.

RESIDENTIAL EQUIVALENT UNIT (REU) Standardized unit of measurement used in billing utilities to property owners.

RESTRICTED FUND BALANCE   Amounts subject to externally enforceable legal restrictions. Examples include fund balance related to unspent bond proceeds, tax increments and debt service fund balances.

REVENUE Funds collected as income to offset operational expenses including property taxes, charges for service, licenses & permits, etc.

RISK MANAGEMENT The ways and means used to avoid accidental loss or to reduce its consequences if it does occur.

SPECIAL ASSESSMENT A levy made against a property to defray all or part of the cost of a capital improvement or service deemed to benefit that property.

SPECIAL REVENUE FUND A fund established used to account for revenue which is restricted for expenditures of a designated purpose.

TAX CAPACITY VALUE Is the taxable portion of the market value which is based on classification rates determined by the type of property tax.

TAX INCREMENT FINANCING (TIF) A financing method in which bonds are secured by the anticipated incremental increase in tax revenue resulting from the redevelopment of an area.

TAX LEVY The amount of property taxes levied to finance operations that are not funded by other sources.

TAXES Compulsory charges levied by a government to finance services performed for the common benefit.

UNASSIGNED FUND BALANCE   Residual amounts that are available for any purpose in the general fund. Unassigned fund balance will occur only in the General Fund or in other funds when there is a negative fund balance that can't be eliminated by reducing restricted, committed or assigned fund balances.

UNRESTRICTED FUND BALANCE The total of committed fund balance, assigned fund balance and unassigned fund balance.

APPENDIX

Financial Management Policies

To achieve these objectives, the City uses a set of policies to guide decision making. The policies in this section blend existing city policies with new criteria developed during this financial management planning process. The financial management policies should be reviewed periodically to maintain relevance and effectiveness.

Purpose: The City of Anoka has a responsibility to its citizens to plan the adequate funding of services desired by the public. This includes managing municipal finances wisely to carefully account for public funds. The financial policies are used to achieve the fiscal stability required to accomplish the City's overall goals and objectives. The accounting standards conform to Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB)**.**

Objectives: In order to achieve this purpose, the financial management policies have the following objectives:

1. Provide accurate information on the full costs of program service levels.
2. Provide accurate and timely information on financial condition.
3. Provide sound principles to guide City Council and management through important decisions, which may have fiscal impacts.
4. Set operational principles which minimize the cost of doing business to the extent of reaching the desired service objectives, while minimizing financial risk.
5. To protect and enhance the City's credit rating and prevent default on any municipal debt.
6. To ensure the legal use and protection of all City funds through a good system of financial and accounting controls.

Control of Finances

The Council shall have full authority over the financial affairs of the City and shall provide for the collection of all revenues and other assets, the auditing and settlement of accounts, and the safekeeping and disbursement of public moneys. The manager shall control and direct the administration of the City's affairs. The manager shall prepare the budget annually and submit it to the council and be responsible for its administration after adoption.

Fiscal Year

The fiscal year of the City shall commence on the first day of January of each year.

System of Taxation

Subject to the State Constitution, and except as forbidden by it or by State legislation, the Council shall have full power to provide by ordinance for a system of local taxation. In the taxation of real and personal property, the City shall be governed by the provisions of State law applicable to statutory cities. The council shall levy the taxes necessary to meet the requirements of the budget for the ensuing fiscal year.

Board of Equalization
The Council shall constitute the Board of Equalization and in its capacity as such Board shall review, amend and equalize the work of the City Assessor pursuant to the general statutes of the State. Provided, that the Council may by ordinance provide for a Board of Equalization consisting of one or more members of the Council and two or more residents of the City who shall perform all duties imposed upon a Board of Equalization by State law and for their services shall receive such compensation as the Council may determine.

Financial Controls

a. The City will maintain an investment policy that invests available funds to the maximum extent possible, at the highest rates obtainable at the time of investment, in conformance with the legal and administrative guidelines. Any money in any fund belonging to the City, or any branch thereof, may be invested by the city according to policies adopted by the City Council.
b. The city will maintain a strong internal control function.
c. The city will maintain a fixed asset system to identify and protect all major City assets.
d. The Finance Department will prepare quarterly financial reports for the City Manager and City Council.
e. At the end of each fiscal year, a Certified Public Accounting firm will conduct an audit of the City records and a management and compliance report on internal controls will be provided to the City.
f. No later than June 30 of each year, the city manager shall submit to the council a comprehensive annual financial report for the past year in order to keep them fully informed of the financial condition of the City. This report shall also be made available to all other interested parties.
g. The City will annually submit its comprehensive annual financial report to the Government Finance Officers Association (GFOA) to determine its eligibility to receive the GFOA's Certificate of Achievement for Excellence in Financial Reporting.
h. The City will annually submit its' budget document to the GFOA to determine eligibility to receive the GFOA's Distinguished Budget Presentation Award.

LONG RANGE FINANCIAL PLANNING

Prior to the annual budget process, the Capital Improvement Plan (CIP) and the Equipment Replacement Plan (ERP) are reviewed and revised. The City annually adopts a 5 year plan for both Capital Improvements and Equipment needs. Departments also project beyond 5 years. Forecasting for the CIP is developed by departments for 10 years and 20 years of equipment needs. These plans are flexible tools used to help build the current year budget and forecast for future needs as they relate to long range goals and objectives of the Council. The CIP serves as a tool for implementing certain aspects of the City's comprehensive plan. Both the CIP and ERP are tools that allow for:

a. An organized approach to planning and initiating projects
b. Timing of financing and grant applications to fund public improvements
c. Adequate time for design and engineering
d. Keeping the Public informed of proposed future projects and expenditures

e. Private investors to be made aware of City long range planning

The Capital Improvement Plan section of the budget document summarizes long range goals and details of each project.

BUDGET POLICY

The municipal budget document is the result of months of work and planning and includes proposed revenues and expenditures for 24 separate funds. These funds are grouped into six major categories. They are:

General Fund	Capital Funds	Internal Service Funds
Special Revenue Funds	Enterprise Funds	General Debt Service Funds

Budgets are complete financial plans for the future by fund, showing all proposed expenditures and estimates of all anticipated revenues. Budgets for the general and special revenue funds will be shown in the manner prescribed by the city charter. All others funds are shown in a manner prescribed by the city manager.

The budget prepared is not only balanced, but closely reflects the expected level of spending. A review of estimated expenditures and revenues for the current year was part of the budget preparation procedure. Thus, revised current year expenditure estimates are as accurate as possible, based on actual history and anticipated needs calculated for the remainder of the year. These budget control procedures are important management tools, which we believe, allow us to make more effective use of the dollars spent in our total municipal program. As a necessary by-product, these procedures also insure compliance with charter finance requirements. The advantage is that current experience is used to refine expenditure estimates and develop the appropriation figures proposed in the next years' budget.

The budget shall be submitted to the council at a regular council meeting, in a manner prescribed by state statute and city charter, not less than 30 days prior to final approval. The budget is a public record open to public inspection. The council shall hold a public hearing on the budget and it shall make such changes therein as it deems necessary and adopt the budget by resolution.

Budgets are estimates and may be amended under the following guidelines:

Preparation of the Annual Budget

The city manager shall, by the first regular meeting in August, submit to the council a budget and an explanatory budget message in a form and manner as prescribed in Section 8.06. For such purpose and at such date as he/she shall determine, the city manager shall obtain from the head of each department, the character, object and details of proposed expenditures together with such other supporting data as he/she requests, including an estimate of all capital projects or capital expenditures which each department head considers should be undertaken in his/her department for the budget year and the next five years. In preparing the budget the city manager shall review the estimates, shall hold hearings thereon and may revise estimates as he/she may deem advisable.

Form of the Annual Budget

The annual budget shall provide a complete financial plan of all funds for the budget year, which shall include: (a) A budget message, (b) all proposed expenditures. The General Fund budget must be balanced, meaning the proposed uses shall not exceed the proposed sources. The expenditures for general and special revenue funds shall be by organization unit or activity and shall be in parallel columns opposite the character and major or minor object of expenditure showing the amount of such expenditure for the last completed fiscal year, the amount estimated for the current budget year and the proposed expenditures for the ensuing budget year. In funds other than general and special revenue the proposed expenditures shall be presented in an understandable manner according to the discretion of the city manager. The city manager shall submit a detailed statement of revenues in columns for the general and special revenue funds for the last completed fiscal year, the amount estimated for the current budget year and the amount estimated for the next budget year. Such detail shall include the source of miscellaneous revenues, the amount of surplus of prior year revenues and the amount raised by property taxes. Revenues for self-supporting and other funds shall be presented in an understandable manner according to the discretion of the city manager. The explanatory budget message may be separate but still accompanying the budget, and be in the form and with contents as follows:

- Budget Message – Current Operations: The budget message submitted by the city manager to the council shall be explanatory of the budget, shall contain an outline of the proposed financial policies of the city for the budget year and shall describe in connection therewith the important features of the budget plan. It shall set forth the reasons for major changes from the previous year in cost and revenue items and shall explain any major changes in financial policy.

- Budget Message – Capital Improvement: As part of the budget message with relation to the proposed expenditures for capital projects stated in the budget, the city manager shall include a statement of pending capital projects and proposed new capital projects, relating the respective amounts proposed to be raised therefore by appropriations in the budget and the respective amounts, if any, proposed to be raised therefore by the issuance of bonds during the budget year.

- Budget – Capital Program: The city manager shall also include in the message, or attach thereto, a capital program of proposed capital projects for the five fiscal years next succeeding the budget year, together with his/her comments thereon and any estimates of costs prepared by the department of public works or other office or department. For the use of the planning commission, copies of the departmental estimates of capital projects filed with the city manager pursuant to Section 8.05 of this chapter shall be filed with the council.

Attached to the budget message shall be such supporting schedules, exhibits and other explanatory material, in respect to both current operations and capital improvements as the city manager shall believe useful to the council.

Passage of the Budget

The council shall determine the place and time of the public hearing on the budget and shall cause to be published a notice of the time and place of the public hearing to be held not less than seven days nor more than fourteen days after publication. The budget shall be a public record in the office of the city clerk open to public inspection by anyone. The city manager shall cause sufficient copies to be prepared for distribution to interested persons and civic groups. The budget meeting as advertised shall be held and adjourned from time to time and conducted so as to give interested citizens a reasonable opportunity to be heard. The budget estimates shall be read in full and the city manager shall explain the various items thereof as fully as may be deemed necessary by the council. The council shall adopt the budget no later than the last date established by law for the county auditor to levy taxes. The budget resolution shall set forth the total for each budgeted fund and each department with such segregation as to objects and purposes of expenditures as the council deems necessary for the purposes of budget control. Such resolution shall also state the amount of taxes to be levied.

Budgets are adopted on a basis consistent with generally accepted accounting principles and are defined on the same basis of accounting described further in this document (see Fund Accounting). Annually appropriated budgets are legally adopted for the general fund and certain special revenue funds. Budgeted amounts are reported as originally adopted, or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end. Encumbrances represent purchase commitments. Encumbrances outstanding at year-end are reported as reservations of fund balances and the budgets associated with them are carried forward to the next year.

The City follows the procedures below in establishing the budget.

1. The city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the estimated revenues for the general fund, specified special revenue funds requested by City Council, enterprise funds, internal service funds, capital project funds and debt service funds. Capital projects are approved by the City Council on a per project basis.
2. Public hearings are conducted to obtain taxpayer comments.
3. The general fund budget is enacted through passage of a resolution.

Enforcement of the Budget

The city manager shall strictly enforce the provisions of the budget as specified in the budget resolution. He/she shall not authorize or approve any expenditure unless an appropriation has been made in the budget resolution and there is an available unencumbered balance of the appropriation sufficient to pay the liability to be incurred. No officer or employee of the City shall place any orders or make any purchases except for the purposes authorized in the budget. Any obligation incurred by any person in the employ of the City for any purposes not in the approved budget or for any amount in excess of the amount appropriated in the budget resolution or in excess of available moneys in any fund of the city may be considered a personal obligation upon the person incurring the expenditure.

Altering or Adjusting the Budget

After the budget shall have been duly adopted, the council shall have no power to increase the amounts fixed in the budget resolution, by the insertion of new items or otherwise, beyond the estimated revenues, unless the actual receipts exceed the estimates and not beyond such actual receipts. The council may at any time, by resolution approved by a four-fifths majority of its members, reduce the sums appropriated for any purpose of the budget resolution. At the request of the manager, within the last three months of the fiscal year, the council may transfer unencumbered appropriation balances from one office, department or agency to another. All appropriations shall lapse at the end of the budget year to the extent that they shall have not been expended or lawfully encumbered.

Emergency Appropriation in the Budget

The council may include an emergency appropriation as part of the budget but not to exceed three percent of the total operating appropriations made in the budget for that year. A transfer from the emergency appropriation to any other appropriation shall be made only upon the affirmative vote of four-fifths of all members of the council. The funds thus appropriated shall be used only for the purposes designated by the council.

DEBT POLICY

City Indebtedness

The City may borrow money and issue and sell bonds for any and all purposes authorized and subject only to the limitations provided by the general laws of the State of Minnesota applicable to cities of the same class as the City of Anoka. The issuance of bonds shall be authorized by an ordinance setting forth the purpose or purposes of the issue and the maximum amount thereof, adopted by the approving vote of four-fifths of all members of the Council; except that the Council may be resolution adopted by a similar vote, authorize the issuance of bonds to finance improvements which are to be paid for in whole or in part by special assessments, sewage disposal facilities and, without limitation, any other utility owned or to be owned and operated by the City, from which a revenue is or may be derived.

The form, maturities, interest rate or rates, redemption privileges and other terms of each issue of bonds, and the covenants to be made by the City for the security thereof, shall be established by the Council by resolution.

The full faith and credit of the City shall be pledged for the payment of all of its bonds save and except that when net revenues to be derived from the operation of any public utility or other revenue producing enterprise of the City are pledged for the payment of bonds issued for the acquisition or betterment of such utility or enterprise, such bonds may in the discretion of the Council be issued as general obligations of the City or may be made payable solely from said net revenues, without limitation of the generality of the foregoing, the Council is specifically authorized to issue general obligation bonds of the City for the purpose of financing improvements in respect of which special assessments are to be levied under the provisions of Chapter 9 of the City Charter or of any law of the State, in anticipation of levy and collection of such special assessments and payable from said special assessments and from ad valorem taxes which shall be levied for the payment of the City’s share of the cost of such improvements and for the provision of the additional amounts required for the security of such bonds. Such bonds may be issued at any time after estimates of the cost of the improvements to be financed thereby have been submitted by the City Engineer and approved by the Council, in amount sufficient to pay any part or all of the cost as determined by said estimates. In the event that the cost exceeds the estimate, the Council shall have authority to issue additional bonds in amount sufficient to pay such excess cost. In the event that the estimate exceeds the cost, the Council shall have authority to appropriate the amount of such excess out of the proceeds of the bonds to the payment of the cost of any additional improvements for which estimates have been approved, or may appropriate such amount to the sinking fund account for the payment of such bonds. The City shall have authority to protect itself by acquiring title to any property subject to special assessments for local improvements and shall have authority, by ordinance or resolution, to sell, assign, and convey the same.

Tax Anticipation Certificates
At any time after January 1 following the making of an annual tax levy, the Council may issue certificates of indebtedness in anticipation of the collection of taxes levied for any fund and not yet collected. The total amount of certificates issued against any fund for any year with interest thereon until maturity shall not exceed 90 percent of the total current taxes for the fund uncollected at the time of issuance. Such certificates shall be issued on such terms and conditions as the Council may determine but they shall become due and payable not later than the 1st day of April of the year following their issuance. The proceeds of the tax levied for the fund against which tax anticipation certificates are issued and the full faith and credit of the City shall be irrevocably pledged for the redemption of the certificates in the order of their issuance against the fund.

Emergency Debt Certificates
If in any year the receipts from taxes or other sources should from some unforeseen cause become insufficient for the ordinary expenses of the City, or if any calamity or other public emergency should subject the City to the necessity of making extraordinary expenditures, the Council may by resolution issue and sell on such terms and in such manner as the Council determines emergency debt certificates to run not to exceed two years. A tax sufficient to pay principal and interest on such certificates with the margin required by law shall be levied as required by law. The resolution authorizing an issue of such emergency debt certificates shall state the nature of the emergency and be approved by a majority of all members of the Council, and the full faith and credit of the City shall be irrevocably pledged for the redemption of the certificates in the order of their issuance.

INVESTMENT POLICY

I. Purpose.

The purpose of this investment policy is to set forth the investment and operational policies for the management of the public funds of the City of Anoka. These policies are designed to ensure the prudent management of public funds, the availability of operating funds when needed and an investment return competitive with comparable funds.

II. Objective.

The primary objectives, in priority order, of investment activities shall be:

1. Safety - Safety of principal is the most important objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

2. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

3. Investment - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above.

III. Standards of Care.

1. Prudence - The standard of prudence to be applied by the investment officer shall be the "prudent investor rule", which stated "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The prudent investor rule shall be applied in the context of managing the overall portfolio. The investment officer, acting in accordance with this policy and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes.

2. Delegation of Authority - Authority to manage and operate the investment program is granted to the Finance Director. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of internal controls to regulate the activities of subordinate officials.

IV. Safekeeping and Custody.

1. Authorized Financial Dealer and Institutions - A list will be maintained of financial institutions and security broker/dealers authorized to provide investment services. This list will be updated annually. Broker/Dealers may only hold city investments to the SIPC **or additional insurance** coverage amount, **whichever is greater**. Any excess securities shall be delivered to the city's custodian.

2. Internal Controls - The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to ensure that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by management.

V. Suitable and Authorized Investments.

1. Investment types - Investments by the City are restricted to the permissible investments under Minnesota Statutes 1I8A.04, 1I8A.O5, and 1I8A.06. The City may diversify its investments by using the following instruments:

   - a) U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;
   - b) Canadian government obligations (payable in local currency), certificates of deposit and other evidences of deposit at financial institutions, bankers acceptances, and commercial paper, rated in the highest tier (e.g., A1, P1, F1 or D1 or higher) by a nationally recognized rating agency;
   - c) investment-grade obligations of state, provincial and local governments and public authorities;
   - d) repurchase agreements whose underlying purchased securities consist of the foregoing; and
   - e) money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities.

2. Collateralization – In accordance with State Law, full collateralization will be required on Certificates of Deposits (amounts exceeding the FDIC level), unds on deposit and repurchase agreements.

VI. Investment Parameters

1. Diversification - The investments will be diversified by security type and institution.

2. Maximum Maturities - To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than ten (10) years from the date of purchase.

VII. Reporting Methods

The Finance Director shall prepare an investment report quarterly, including a management summary that provides a clear picture of the status of the current investment portfolio. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the City Manger and will include the following:

1. A listing of individual securities held at the end of the reporting period including broker and issuer.

2. Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of the securities.

3. Listing of investments by maturity date.

4. Summary of investments by custodial risk credit risk.

VIII. Policy Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of the policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

IX. The City of Anoka Investment Policy shall be ratified annually.

COUNCIL WORKSESSION MEMO

3.4

Meeting Date	10-24-2016
Item Description	Development Update
Submitted By	Doug Borglund, Deputy Community Development Director

BACKGROUND INFORMATION

Doug Borglund will provide a PowerPoint of the Development activities at the Worksession.

FINANCIAL IMPACT

N/A

COUNCIL DIRECTION REQUESTED

Council direction on how to proceed with development of various properties.