



# Financial Policies

## Strategies for Stability, Resiliency, and Growth

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April 13, 2026

# Financial Objectives

- Establish a comprehensive financial policy outlining strategies for:
  - Long-term financial planning
  - Reserve funds
  - Capital & reinvestment
  - Cost-of-service-based rates
  - Linking specific revenues to expenditures
  - Incremental rate adjustments to avoid spikes
  - Competitive rate benchmarking
- Ensure compliance with federal & state laws, accounting and financial standards.
- Ensure alignment with the Government Finance Officers Association (GFOA), American Water Works Association (AWWA), and American Public Power Association (APPA) best practices.
- Enhance financial position of the City and support high credit ratings.
- Provide a centralized framework for financial policies within the City.



# Long-Term Financial Planning

- Establish longer-term financial forecasts (e.g., 10-year proforma).
  - Currently 5-year forecasts are developed, with a focus only on the next fiscal year.
  - GFOA recommends a financial plan greater than 5 years for all governments that utilize debt financing and/or utility rate setting.
- Define specific forecast assumptions supported by available data, including:
  - Population/customer growth
  - Volume/demand growth
  - Inflation
  - Service levels
  - Staffing levels
  - Rate changes
  - Capital projects
  - Reserve balances
- Identify structural imbalances early and develop strategies to address them proactively.



# Reserve Funds Policy (402.05)

- GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.
- Reserves should provide financial stability, protect against revenue volatility, and ensure continuity of services during economic downturns or emergencies.
- Review reserve fund levels for the major funds (General Fund, Electric, Water, Wastewater, & Solid Waste) to ensure operating reserves are sufficient to meet operating needs and industry standards.
- Clearly delineate the role and use of Working Capital Reserves and Operating Reserves.
  - Working Capital: Provides short-term support for fluctuations in day-to-day operations.
  - Operating Reserve: Provides long-term support for rate stabilization and emergencies.
- Establish fund targets for internal service funds and the Airport.



# Capital & Reinvestment Policies

GFOA recommends a written policy addressing capital asset reserves for renewal and replacement. The City does not currently have an adopted policy.

1. Establish funding strategy based on the type of asset and life-cycle.
  - Cash Funding: Preferred for existing, recurring replacements and short-lived assets.
  - Debt Funding: Reserved for new capacity or long-lived assets.
2. Establish depreciation-based funding.
  - Cash funding for asset replacement aligned with annual depreciation.
    - This ensures a reserve is available to replace assets at the end of their useful life.
    - Proceeds from the sale of assets are used to replace similar assets.
    - Inflation adjusted to assume true replacement cost will exceed the original asset cost.
3. Establish an integration with the Long-Term Financial Planning strategy.
  - Track reinvestment ratio (annual capital spending / depreciation expense)
  - Periodically evaluate deferred maintenance cost vs. proactive reinvestment



# Revenue & Expense Policies

GFOA recommends adopting strong policies to maintain a structurally balanced budget.

Outline and document specific links between revenue and expenses in financial forecasting.

- Impact Fee Reserve → Offset debt service for impact fee-eligible projects.
- Vehicle Replacement Fund → Fund fleet purchases and replacements.
- Energy Cost Adjustment (ECA) → Recover net power costs.
- Transmission Cost Recovery Factor (TCRF) → Recover transmission costs.

Identify which revenues are restricted, committed, or designated for specific expenses.

- How surplus or deficits will be managed.
- How compliance will be monitored and reported. Including language on excess funds (e.g., surplus ECA collections) and how they will be applied (rate stabilization).

Establish an integration with the Long-Term Financial Planning strategy.

- Track alignment with state law, bond covenants, utility standards, and GASB accounting standards.



# Incremental Rate Adjustments

Rate adjustments should be based on multi-year financial forecasts (e.g., 5–10 years) that incorporate:

- Operating and capital needs
- Reserve targets
- Debt service obligations
- Inflation and growth assumptions

Gradual Adjustments – Tied to long-term planning to provide predictable annual increases rather than infrequent large spikes.

Review fee adjustments annually to ensure alignment with actual cost of service.

Target adjustments that maintain compliance with:

- Cost-of-service principals
- Debt coverage ratios
- Reserve policies



# Benchmarking

Identify and document comparable utilities based on:

- Service type (electric, water, wastewater, solid waste)
- Size (customer base, units of infrastructure, staffing)
- Regional and state context
- Ownership type (municipal vs. investor-owned)

Identify and document comparable metrics based on:

- Average residential, commercial, and industrial rates.
- Total bill comparison for typical usage levels.
- Rate structure differences (fixed vs. variable components).
- Affordability indicators (e.g., % of median household income).

Data Sources

- Industry associations (AWWA, APPA), State regulatory filings, consultant studies, publicly available rate schedules



# Implementation

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## Phase 1 — Framework & Direction (0–3 Months)

- Council confirmation to establish a comprehensive financial policy.
- Finalize definitions for reserves, capital reinvestment, revenue/expense policies, and benchmarking.
- Begin development of the 10-year long-term financial forecasts.

## Phase 2 — Technical Development (3–9 Months)

- Build and validate long-range forecasts through the budget process.
- Develop reserve targets for all major funds and internal service funds.
- Develop depreciation-based reinvestment strategy and capital funding framework.
- Document revenue-expense linkages and restrictions.
- Compile benchmarking datasets.



# Implementation

## Phase 3 — Policy Adoption & Integration (9–15 Months)

- Present draft policies to Council; incorporate feedback.
- Integrate adopted policies into FY 2027-28 budget development.
- Establish compliance and monitoring dashboards (reserves, rate path, reinvestment ratios).

## Phase 4 — Ongoing Monitoring (15–24 Months)

- Implement incremental rate adjustment strategy.
- Perform annual reserve adequacy review.
- Evaluate reinvestment ratio and deferred maintenance.
- Conduct annual benchmarking as part of budget process.

Updates on the progress of the comprehensive financial policy initiative will be provided to PUB and Council at key development milestones for feedback.



# Next Steps

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- April 13, 2026: PUB recommendation on the establishment of a comprehensive financial policy.
- April 21, 2026: City Council direction on the establishment of a comprehensive financial policy.



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# Questions

