

1 **CITY OF SANTA FE, NEW MEXICO**

2 **RESOLUTION NO. 2015-106**

3 **INTRODUCED BY:**

4
5 Mayor Javier M. Gonzales

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10 **A RESOLUTION**

11 **ADOPTING BEST PRACTICES AND STANDARDS TO HELP GUIDE THE**
12 **MANAGEMENT OF THE CITY'S FINANCES AND FOR ASSISTING THE**
13 **GOVERNING BODY AND CITY STAFF IN EVALUATING CURRENT ACTIVITIES**
14 **AND FUTURE PLANS.**

15
16 **WHEREAS**, the City of Santa Fe is responsible for a complex total annual budget of
17 more than \$340 million that its citizens rely on to receive critical services; and

18 **WHEREAS**, the City of Santa Fe desires to manage its finances in the most prudent and
19 transparent fashion; and

20 **WHEREAS**, the City of Santa Fe deems it necessary to adopt established best practices
21 and standards to guide the management of its finances.

22 **NOW THEREFORE BE IT RESOLVED BY THE GOVERNING BODY OF THE**
23 **CITY OF SANTA FE** that the Governing Body hereby established the following, general
24 principles and priorities regarding the financial management policies of the City of Santa Fe.

25 **BE IT FURTHER RESOLVED** that the City of Santa Fe's financial management

1 policies and basis for evaluating the financial performance of current activities and future plans
2 are the following:

3 **Guiding Principles**

4 The following five principles shall guide the direction given in this policy document:

- 5 1. Equitable
- 6 2. Consistent
- 7 3. Sustainable
- 8 4. Competitive
- 9 5. Full community participation.

10 **1. Budget**

11 **A. Budget Preparation**

12 The City Administration shall, prior to March 15, recommend to the Governing Body the
13 annual budget covering the next fiscal year. The budget including the General Fund, Special
14 Revenue Funds, and Enterprise Funds shall contain the following information:

- 15 1. The Governing Body, by resolution, shall adopt appropriate, general
16 principles and priorities for the upcoming budget; and
- 17 2. A letter from the City Administration explaining the proposed financial plan
18 for the next fiscal year; and
- 19 3. Budget summaries for the General Fund, Major Special Revenue Funds and
20 Enterprise Funds, including a beginning fund balance, estimated revenues,
21 operating expenditures, capital outlay and ending fund balance for each fund;
22 and
- 23 4. Debt service expenditures, along with comparisons of estimated expenditures
24 to prior year actual expenditures; and
- 25 5. Proposed revenues and expenditures, by source, for each department for the

1 budget year, with comparisons to prior year actual and current year revenues
2 and expenditures; and

- 3 6. Indication of proposed activity changes (additional staffing) including
4 operating and capital expenditures required supporting the additional
5 staffing.

6 B. Basis of Budgeting

7 Revenue and expenditures are budgeted on a cash basis with encumbrances (contractual
8 commitments to be performed) considered the equivalent of expenditures.

9 C. Budget Calendar and Roles and Responsibility

10 The City's budget *shall be* developed on an annual basis with enough time and in a
11 fashion that allows for sufficient deliberation by the Governing Body and engagement with the
12 citizenry. The City's fiscal year begins on July 1 and ends twelve months later on June 30. The
13 development of the budget is done in a progressive and collaborative manner following the
14 direction that the Governing Body provides at the onset of the process:

- 15 1. No later than October 31, the Finance Director shall present a 5-year forecast
16 of revenues and expenditures, highlighting significant financial challenges
17 and decisions the City may be facing. The Finance Director shall also
18 recommend the key assumptions for developing the budget, including
19 inflation and other factors that may affect revenue and expenditures in the
20 new fiscal year; and
- 21 2. There shall be an annual assessment of existing policy actions considered as
22 unfunded mandates that have a recurring expenditure and a determination if
23 they should be amended or terminated; and
- 24 3. Following submission of the budget to the Governing Body, at least two
25 public hearings for citizen comments are held between the months of April

1 and May. Following adoption by resolution, the budget is submitted before
2 May 31 to the New Mexico Department of Finance and Administration to
3 obtain interim approval; and

- 4 4. At fiscal year-end, cash positions are established and the Governing Body
5 makes a final review and approves the final budget by resolution.

6 D. Budget Control System

7 The Finance Director is responsible for maintaining a budgetary control system to ensure
8 adherence to the adopted budget. On a monthly basis, the Finance Director will prepare summary
9 reports that compare actual revenues and expenditures to budgeted amounts and provides a year-
10 end performance projection for each department. These reports are presented to the Finance
11 Committee of the Governing Body with distribution all of its members to keep them all informed
12 of the City's budget performance.

13 A key aspect of budget control is the process for amending or adjusting the approved budget. No
14 changes can be made to either the capital or operating budget without a proper approval of a
15 formal request as follows:

- 16 1. Any increase in appropriation, whether in operations and maintenance or
17 capital improvement, requires approval by resolution of the Governing Body
18 2. Any single budget adjustment for more than \$50,000 or project modification
19 greater than \$50,000 in value requires approval by resolution of the
20 Governing Body
21 3. The City Administration has authority to approve budget adjustments within
22 a business unit or capital project not exceeding \$50,000 in the aggregate
23 within a fiscal year, and
24 4. The Finance Director has authority to approve adjustments up to \$5,000
25 within a business unit or capital projects.

1 5. In accordance with NMSA 6-6-11 and 6-6-12, appropriations expire at the
2 end of the fiscal year, and shall be carried forward only as re-appropriations
3 by the Governing Body as either part of the current year budget or as duly
4 approved budget adjustment requests.

5 E. Fiscal Notes

6 The Finance Department shall provide the Governing Body a fiscal impact statement for
7 all major policy decisions that may affect the City’s finances. The fiscal notes shall include start-
8 up costs of a program/project and the associated operations costs for a minimum of five years.
9 These notes shall also include projected impact on the affected fund ending balance. Unbudgeted
10 items will require identification of savings necessary to fund needs. Fiscal notes for refunding
11 bond reimbursement resolutions shall require the fiscal impact to debt service both in real dollars
12 and tax rate for a minimum of five years.

13 F. Balance Budget Definition

14 All funds are required to reach at least a balance between current revenues and current
15 expenditures. Total anticipated revenues must equal the sum of budgeted expenditures for each
16 fund in the current fiscal year.

17 G. Performance Measures

18 Where possible, the City Administration will integrate performance measurement and
19 productivity indicators beginning in the City’s published Fiscal Year (FY) 2017/2018 budget
20 document.

21 **2. Revenue Policies**

22 A. Revenue Diversification and Stabilization

23 The City will strive to attain a diversified and stable revenue system to shelter it from
24 short-run fluctuations in any one revenue source. Because it is highly influenced by economic
25 conditions out of the City's control, Gross Receipts Tax (GRT), which historically accounts for

1 the majority of the City's general fund revenue, tends to be volatile. Property tax, which accounts
2 for a much smaller percentage of the City's general fund revenue, is more stable. The City will
3 address its exposure to revenue volatility through a strategy of promoting economic development
4 and diversification to strengthen its overall economic base.

5 B. One-Time Revenues and Unpredictable Revenues

6 The City will use one-time or unpredictable revenues like the sale of land for capital
7 expenditures or for expenditures required by the revenue, and not for recurring personnel,
8 operational or maintenance costs.

9 C. New Revenues

10 The City will consider a set of established criteria for any proposed additional revenue:

- 11 1. Competitiveness – the revenue or tax burden of the City relative to
12 neighboring communities
- 13 2. Diversity – the balance of revenue sources that can withstand changes in the
14 business cycle
- 15 3. Efficiency – the cost of administering a tax or fee should bear a reasonable
16 relation to revenues collected, and any new tax or fee should have minimal
17 effect on private economic decisions, and
- 18 4. Fairness – the distribution of the City's revenue burden as measured by
19 ability to pay, the benefits received, or the community's definition of the
20 resident's fair share of the revenue burden.
- 21 5. Alignment – taxes and fees shall bear a reasonable association to the costs for
22 the service they are intended to fund.

23 D. Existing Revenues

24 The City shall conduct a periodic systematic review of all existing revenues including,
25 but not limited to, fees, charges and tax rates to determine if their original intent is still current

1 and desirable.

2 E. Revenue Estimates

3 To maintain a stable level of services, the City shall prepare revenue estimates through a
4 conservative, objective, and analytical approach. There shall be an analysis of probable economic
5 changes and their impacts on revenues, historical collection rates, and trends in revenues. The
6 objective should be to reduce the likelihood of actual revenues falling short of budget estimates
7 during the year and avoid mid-year service reductions.

8 F. User Fees

9 The City will seek to recover the full cost of services provided directly to citizens, unless
10 a City interest is identified and approved by the Governing Body to reduce a specific fee. Full
11 cost is defined to include all direct costs to provide the service and appropriate related indirect
12 cost.

13 Fees assessed at less than full cost are established to achieve an objective related to a user
14 group, such as providing easier access to programs or encouraging participation by certain
15 targeted groups such as youth or lower income individuals. The Governing Body shall explicitly
16 approve any fee that is designed to recover less than the full cost of the respective service.

17 Each department shall, on an annual basis, identify all program costs and develop fee
18 recommendations for consideration in the upcoming budget following the policy direction given
19 by the Governing Body at the start of the budgeting process as established in Section 1(C) of this
20 Resolution.

21 The City shall assess a fee to all of its Enterprises for the use of City-owned Right-of-
22 Way based on fair market value.

23 **3. Expenditure Policy**

24 The City will maintain a level of expenditures that will provide for the health, safety and
25 welfare of the residents of the City of Santa Fe.

1 A. Efficiency

2 The City will utilize every means necessary to maximize the efficiency and productivity
3 of government operations.

4 B. Maintenance of Capital Assets

5 Within the resources available each fiscal year, the City shall maintain capital assets and
6 infrastructure so as to protect the City's investment, minimize future replacement and
7 maintenance costs, and sustain service levels.

8 **4. Fund Balance and Reserve Policy**

9 The General Fund's principal revenue source is GRT, which tends to be volatile. This
10 calls for an adequate General Fund balance level to ensure liquidity in all cases and demonstrate
11 the City's financial strength to the independent rating agencies.

12 The New Mexico Department of Finance and Administration, Local Government
13 Division regulations mandates that all municipalities maintain a minimum general fund balance
14 of 1/12th (8.3%) of general fund operating expenditures. To ensure this requirement is always
15 met, the City shall establish a contingency reserve above the state-mandated minimal level of
16 total fund balance.

17 The City's goal shall be to establish and maintain a total General Fund reserve of not less
18 than ten percent (10%) of General Fund operating expenditures.

19 Unreserved fund balances in excess of what is required shall be used to fund capital items
20 in the operating and capital budget. However, if projected revenue in future years is not sufficient
21 to support projected requirements, a higher unreserved ending balance may be budgeted to
22 achieve long-term structural balance.

23 **5. Capital Improvement Plan**

24 The City shall adopt a capital budget to serve as a long-term planning tool that allows for
25 prioritization, financing coordination, and timely technical design and application of capital

1 projects and programs. To ensure the capital budget effectively reflects the priorities and
2 conditions of the times, it shall be a five-year plan that is updated and approved annually before
3 May 31. It shall contain a balanced mix of financing for funding capital project, including pay-
4 as-you-go, grants, and debt, without excessive reliance on any one source. It shall be developed in
5 coordination with the operating budget, projecting operating costs associated with new capital
6 improvements and incorporating the economic and fiscal forecasts used to develop the operating
7 budget.

8 **6. Procurement**

9 The City shall adopt a procurement policy that shall be reviewed by the Governing Body
10 every two years to ensure it complies with all current applicable laws, incorporates best practices,
11 and aligns with the City's priorities and related policies.

12 A. The Chief Procurement Officer

13 The City Administration shall assign the role of a Chief Procurement Officer to a
14 qualified staff person who shall be responsible for the fair and efficient application of the
15 procurement policy. The City's procurement policy shall establish the duties and responsibilities
16 of the Chief Procurement Officer, which shall include keeping the procurement policy up to date.

17 B. Procurement Planning

18 Each department shall prepare an annual procurement plan that discloses all of the
19 significant purchases of goods and services contemplated during the fiscal year. The collection of
20 all the departments' procurement plans shall comprise the City of Santa Fe's Annual Procurement
21 Plan. The Chief Procurement Officer shall be responsible for coordinating the development,
22 updating, and making this plan accessible to the public.

23 **7. Accounting and Annual Audit**

24 The City's accounting practices will always conform to generally accepted accounting
25 principles as set forth by the authoritative standard-setting body for units of local

1 government.

2 An annual audit will be performed by an independent certified public accounting firm
3 and an official comprehensive annual financial report (CAFR) shall be issued no later than 6
4 months following fiscal year-end. The independent certified public accounting firm shall present
5 to the Audit and Finance Committees the results of the annual audit no later than 60 days
6 from the issuance of the City's CAFR.

7 **8. Debt Management Policy**

8 The City shall limit its debt to a level that is competitive with comparable cities in its
9 rating class as reported by Standard & Poors and Fitch rating agencies.

10 The City shall follow the accepted parameters and practices established by the market to
11 plan, issue, manage, continually evaluate, and report on all its debt obligations in conjunction
12 with the City of Santa Fe Debt Management and Post Issuance Policy #13-1185. This policy shall
13 be brought forward for review and approval annually. The salient points in this policy are
14 reiterated below to facilitate a broader overview and context for the City's annual budget.

15 A. Use of Long-term Debt Financing

16 Long-term debt financing will not be used for a recurring purpose, such as current
17 operating and maintenance expenditures. The City will use long-term debt financing only for
18 one-time capital improvement projects and major equipment acquisitions included under the
19 following circumstances:

- 20 1. When the project is included in the City's five-year capital budget
- 21 2. When it is a project mandated immediately by state or federal requirements
- 22 3. When it is a project for which grant money has been offered and the matching
23 funds are not readily available from other sources; and
- 24 4. When the project is the result of growth within the community that requires
25 unanticipated and unplanned infrastructure or capital improvements by the City.

1 B. Workforce Accounts

2 Unless explicitly directed otherwise by the Governing Body, City workforce accounts
3 may be used only for projects and/or work orders funded with operating revenues or reserves.

4 C. Types of Debt

5 Debt financing may include general obligation bonds, revenue bonds, lease/purchase as
6 well as public improvement district bonds, special assessment bonds, and tax increment financing
7 (TIF) Bonds. Loans may also be used when the terms are more financially attractive than
8 alternative financing or for specific programs such as may be offered through the New Mexico
9 Finance Authority

10 D. Project Life

11 Only capital assets or projects with an economic value lasting more than five years shall
12 be financed using debt.

13 E. Refunding Policy

14 The Finance Department and the City's financial advisor will monitor the municipal bond
15 market for opportunities to obtain interest savings by refunding outstanding debt. As a general
16 rule, the present value savings of a particular refunding should exceed 3%, with certain
17 exceptions, such as bonds to be refunded have restrictive or outdated covenants, or restructuring
18 debt is deemed to be desirable.

19 F. Limitations on Maturity

20 The City normally will issue bonds with maturities of no less than 10 years for general
21 obligation bonds and 12 years for revenue bonds except for refunding bonds.

22 G. Debt Structure and Annual Debt Burden

23 The City will seek to structure each debt issue with level principal and interest payments
24 over the life of the debt.

25 In compliance with the terms of the City's bond ordinance, the City will seek to structure

1 expenditures and any other GRT-supported debt service so it does not aggregately exceed the
2 amount of the GRT received annually over the life of the debt.

3 H. Statutory Limitation

4 The Constitution of the State of New Mexico limits the amount of outstanding general
5 obligation bonds to 4% of the assessed value of taxable property within the City.

6 I. Credit Enhancements

7 Credit enhancement (letters of credit, bond insurance, etc.) may be used, but only when
8 net debt service on the bonds is reduced by more than the costs of the enhancement.

9 J. Investment of Bond Proceeds

10 All general obligation and revenue bond proceeds shall be invested as part of the City's
11 cash pool unless otherwise specified by the bond legislation. Investments will be consistent with
12 those authorized by existing city ordinance, state law and by the City's investment policies.

13 K. Sale Process

14 The City will generally conduct financings on a competitive basis. However, negotiated
15 financings may be used due to market volatility or the use of an unusual or complex financings or
16 security structure.

17 L. Professional Services

18 The City may employ outside financial specialists to advise it in developing a bond
19 issuance strategy, preparing bond documents, and marketing bonds to investors. The key
20 financial advisors include its financial advisor, bond counsel, underwriter (on a negotiated sale),
21 external investment advisor, and in some instance a disclosure counsel. Other outside firms, such
22 as those providing paying agent/registrar services, trustee, credit enhancement, auditing, or
23 printing services, are retained as required.

24 M. Bond Rating Goals

25 The City will seek to maintain and, if possible, improve the current ratings to minimize

1 borrowing costs and preserve access to credit.

2 N. Disclosure

3 The City is committed to continuing disclosure of financial and pertinent credit
4 information relevant to the City's outstanding securities and will abide by the provisions of
5 Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary
6 market disclosure.

7 O. Post Issuance Compliance

8 The City shall comply with IRS regulations governing post issuance compliance for
9 municipal tax-exempt debt. The City shall also comply with the terms of the Tax Certificate
10 issued with each bond issue to maintain and preserve the City's tax-exempt status.

11 P. Rating Agency Relations

12 Full disclosure of operations and open lines of communication shall be made to the rating
13 agencies. City staff, with the assistance of the financial advisor, shall prepare the necessary
14 materials and presentation to the rating agencies. Two credit ratings will be sought from Standard
15 & Poor's, Fitch and/or Moody's as recommended by the City's financial advisor.

16 **9. Investment Policy**

17 The guiding principles for City's investment of its funds shall be the maximization of the
18 safety of principal and ensuring that sufficient funds are available to meet its operating needs and
19 unanticipated cash demands while earning the highest possible return within the parameters
20 established in the City of Santa Fe Investment Policy #14-0383 . This policy shall be reviewed
21 and approved annually. Cash management and investment items of major importance are
22 reiterated below to facilitate a broader overview and context for the City's annual budget.

23 A. Scope

24 Unless otherwise noted, this policy applies to all financial assets over which the City has
25 direct control as well as those funds that the City is responsible for as custodian, trustee or fiscal

1 agent.

2 B. Delegation of Authority

3 Pursuant to City of Santa Fe City Code, Section 11-8c, the Governing body has
4 authorized the City Administration to assign the role of Investment Officer to invest money not
5 immediately needed for operation of the City government. To the extent permitted by law, any
6 authority granted in State statute shall be secondary to lawfully enacted ordinances of the City.
7 The Cash Management and Investment Officer shall be responsible for all transactions
8 undertaken and, in conjunction with the Finance Director, shall establish a system of controls to
9 regulate the investment activities of subordinate officials.

10 The Cash Management and Investment Officer shall carry out established written
11 procedures and internal controls for the operation of the investment program consistent with this
12 ordinance. Procedures should include references to: safekeeping, delivery versus payment,
13 investment accounting, repurchase agreements, wire transfer agreements, collateral/depository
14 agreements, and banking services contracts.

15 No person may engage in an investment transaction except as provided under this
16 ordinance and the procedures established by the Cash Management and Investment Officer.

17 C. Prudence

18 Investments shall be made with judgment and care, under circumstances then prevailing,
19 which a person of prudence, discretion and intelligence would exercise in the management of
20 their own affairs, not for speculation, but for investment, considering the probable safety of their
21 capital as well as the probable income to be derived.

22 D. Authorized Investment Advisor and Financial Institutions

23 The City uses an external investment advisor to assist with selecting appropriate
24 investments, executing trades, annually reviewing the investment policy, and other tasks as
25 defined in the investment advisor professional agreement. The investment advisor agreement is

1 bid every four years per purchasing regulations. The selected investment advisor will provide
2 annual certification of having read and understood the Investment Policy and will verify that all
3 registrations and investment certifications are current. The investment advisor will also provide
4 an annual list of broker dealers that have been fully vetted for use in purchasing City investments.

5 All financial institutions conducting banking and investment business with the City are to
6 provide annual financial statements and annual certification that they have read and understood
7 the Investment Policy.

8 E. Internal Controls

9 The City Administration shall assign the role of Cash Management and Investment
10 Advisor to a qualified staff person who shall establish and maintain an internal control structure
11 designed to ensure that the assets of the City are protected from loss, theft or misuse.
12 Investments, policies and procedures will be reviewed annually by an external auditor as part of
13 the Comprehensive Annual Financial Report. The internal controls shall address the following,
14 as well as any other items the external auditor deems important:

- 15 1. Control of collusion
- 16 2. Completeness and accuracy of accounting and record keeping for all
17 investment transactions
- 18 3. Custodial safekeeping
- 19 4. Avoidance of physical delivery of securities
- 20 5. Clear delegation of authority to subordinate staff members
- 21 6. Written confirmation of telephone transactions for investments and wire
22 transfers,
- 23 7. Existence of a fiscal agent agreement and a collateral agreement with the
24 fiscal agent and third party custodian, and
- 25 8. Collateral verification and reconciliation.

1 F. Delivery vs Payment

2 All trades, where applicable, will be executed by delivery versus payment. This ensures
3 that securities are deposited in the eligible financial institution prior to the release of funds.
4 Securities will be held by a third party custodian as evidenced by safekeeping receipts.

5 G. Suitable and Authorized Investments

6 The following types of investments are authorized:

- 7 1. U.S. Government obligations, U.S. Government agency obligations, and U.S.
8 Government instrumentality obligations
- 9 2. Repurchase agreements
- 10 3. Certificates of deposit
- 11 4. Investment grade obligations of state and local government and public authorities
- 12 5. The New Mexico State Treasurer's Local Government Investment Pool
- 13 6. Government money market mutual funds, and

14 The following types of investments are prohibited:

- 15 1. Derivative instruments, collateralized mortgage obligations or equity securities
- 16 2. Investment purchases on margin or short sale
- 17 3. Any investment instrument not authorized by the Council Approved Investment
18 Policy.

19 H. Collateralization

20 Bank deposits, certificates of deposit and repurchase agreements shall be collateralized
21 by securities of the United States and the State of New Mexico, including surety bonds as
22 provided in NMSA 6-10-15 at 102% of market value of the City's deposited principal. A letter of
23 credit for at least 50% of the deposited principle combined with a portfolio of current performing
24 loans in Santa Fe County for at least 60% of the deposited principle may serve as an alternative
25 form of collateralization.

1 I. Investment Parameters

2 1. Diversification. The City will diversify its use of investment instruments to
3 avoid incurring unreasonable risks inherent in over-investing in specific
4 instruments, individual financial institutions or maturities.

5 2. Maximum Maturities.

6 a. To limit the city's exposure to the possibility of loss due to interest rate
7 fluctuations, the City will not commit any funds, with the exception of trust and
8 bond funds, to maturities longer than five years from the date of purchase.

9 b. On investments made as legal reserves for bonded indebtedness, the maturity
10 date will not exceed the final maturity date of the bond issue to which they are
11 pledged.

12 c. Because of inherent difficulties in accurately forecasting cash flow requirements,
13 a portion of the portfolio should be continuously invested in readily available
14 funds such as bank accounts, overnight repurchase agreements, the New Mexico
15 Local Government Investment Pool, or money market mutual funds to ensure
16 that appropriate liquidity is maintained to meet ongoing obligations.

17 J. Reporting

18 1. Methods. The Cash Management and Investment Officer shall prepare for the
19 Governing Body and City Administration an investment report, at least quarterly.

20 2. Performance Standards. The investment portfolio should obtain a market
21 average rate of return during a market/economic environment of stable interest
22 rates. The portfolio will be managed such that no risk exists of having to sell
23 securities at a loss to meet liquidity needs.

