# CITY OF LAKEVILLE, MN
# FINANCIAL SUSTAINABILITY AND RESILIENCY POLICY

## PURPOSE:

The purpose of this policy is to establish strategic financial sustainability and resiliency principles for the City of Lakeville, which may be used when developing the annual budget, long-term financial plans, and when making critical financial, economic development and community development decisions.

## DEFINITION:

Financial sustainability is defined as the process that establishes a long-term vision, builds trust and cooperation through planning and transparency, sets rules, is fair, and establishes outcomes to monitor Lakeville's progress in achieving the principles. It considers the risks, obligations and opportunities of Council's critical decisions on the community, including the people, the environment and financial position of the City.

Financial resiliency is defined as the ability to maintain ongoing financial health when facing serious external challenges, including but not limited to economic adjustments, natural disasters and important policy changes by other levels of government.

## OBJECTIVES:

Financial sustainability is achieved when service and infrastructure levels and standards are delivered according to a Council adopted Long-Term Financial Plan without the need to significantly increase user rates or taxes or significantly reduce services or to issue debt in excess of the City's Debt Policy.

Long-term financial sustainability is important if the Council is to deliver the services and programs expected by the community. It is also important that community assets are maintained so that an unfunded liability does not build up and become a burden for future taxpayers and/or ratepayers.

Responsible long-term financial sustainability ensures:

- Consistent delivery of essential community services and the efficient development of infrastructure
- Public resources and costs distributed fairly between current and future ratepayers and taxpayers, achieved with stability and predictability by having a balanced budget and maintaining a reasonable operating surplus
- Funding for the maintenance, replacement and upgrade of assets
- The City maintains a healthy financial position and a strong level of credit quality (Aa and Aaa levels) in compliance with the Debt Policy
- Continued or enhanced stability and certainty of financial outcomes
- Sufficient reserves are available to address emergency situations (i.e. natural disasters, etc.)

## SCOPE:

This policy applies to the City of Lakeville and those involved in planning and implementing Envision Lakeville, its community vision plan.

## IMPLEMENTATION:

The Council will ensure the following plans are fully developed, articulating support of the concepts of financial sustainability and resiliency as overall goals (individually and in coordination with the other plans); and reviewed annually:

- Envision Lakeville (2018 community vision plan)
- Comprehensive Land Use Plan (2040)
- Infrastructure Plans:
  - Transportation Plan
  - Water Plan
  - Sanitary Sewer Plan
  - Water and Natural Resources Management Plan
  - Parks, Trails and Open Space Plan
- Economic Development Strategic Plan
- Asset Management Plan
- Long-term Financial Plan

Council will annually review and affirm the following financial sustainability principles to be included in the annual budget and Capital Improvement Plan: ensuring strategic financial sustainability, resiliency and long-term financial viability for the City of Lakeville.

**Policy Exceptions and Amendments**

In the event that the Policy principles cannot be achieved within the parameters provided, the City Council will discuss and take affirmative action to call out the exception or deviation and approve a plan to cure the deviation within one year.

If the exception or deviation is going to take longer than one year to cure, the City Council will consider following the City's protocol for modifying the policy.

**Balanced Budget**

Council is required by Minnesota State Statute 412.711 to adopt a balanced budget. The City's policy is to budget an underlying operating surplus each year to maintain the General Fund Balance Ratio, as of December 31, between 40%-50% of the next year's expenditures.

This percentage is calculated as: Unrestricted Fund Balance / Next Year's Expenditures

The City will adopt and comply with additional fund balance ratios or financial management targets consistent with best practices established by the Government Finance Officers Association (GFOA) and / or the State of Minnesota Office of the State Auditor (OSA).

**Debt Limitations and Goals**

It is appropriate for the City to invest in new infrastructure assets that are paid for by both current and future tax and rate payers. The level of borrowings should be consistent with the City's Debt Policy.

- The City will research and consider types of debt issuance that result in lower interest costs, offers maximum financial flexibility and helps achieve other goals: Environmental, Social, and Governmental (ESG) such as Green Bonds (bonds specifically earmarked for use to fund climate and environmental projects).
- For selected asset classifications, the City will evaluate adopting a "Pay-As-You-Go" Strategy such that resources are set aside for the asset replacement at the appropriate future time.
- The City will strive to meet these goals within the next five to seven years.

**Funded Asset and Service Provision Costs**

The full cost of providing services to the community will be included in the Annual Budget and Long-Term Financial Plan. The City will budget for the appropriate maintenance, replacement and upgrade of existing assets, as well as additional assets due to community growth or increased service levels and types of services.

- Existing assets will be maintained to a level that ensures their economic life is maximized. The City will utilize subject matter experts to establish overall condition indices (OCI), maintenance protocol, etc. The City will continue to maintain and/or replace needed assets (utilities, streets, trails, parks, vehicles, equipment, etc.) to ensure they can continue to provide benefit to the community.
- The City supports funding to maintain compliance with established OCI, maintenance protocols, etc.
- The City will utilize appropriate software resources to track the ongoing costs associated with maintaining its assets.
- Existing infrastructure will be maintained to a reasonable and serviceable level as a priority over building or acquiring additional infrastructure. Building or acquiring additional infrastructure will require Council to increase maintenance responsibilities, which may be funded by either additional rate/fee increases or reduced service levels.
- The City supports factoring in additional resources (personnel, vehicles/equipment, technology, etc.) when projecting long-term growth of the community.
- The City supports funding one hundred percent (100%) of depreciation of Pay-As-You-Go Strategy achieved by the following formula per the asset classification chart:

  Asset Replacement Cost / Useful Life of Asset

| Asset Classification | Threshold | Goal |
|---|---|---|
| Vehicles & Equipment | Useful life < 13 years; or Cost < $500,000 | Within the next five to seven years (2025-2027) |
| Building Major Repair and Maintenance | Replace major building components | Within the next five to seven years (2025-2027) |
| Street Infrastructure | City's share of mill and overlay and reconstruction | Within the next twenty years (2040) |
| Water Infrastructure | Infrastructure Replacement* | Within three years (2022) |
| Sewer Infrastructure | Infrastructure Replacement* | Current |

*See individual plans for further description

**Review of Assets**

Existing assets will be reviewed to ensure their use is consistent with meeting the goals of Envision Lakeville, the Comprehensive Land Use Plan and specific Infrastructure Plans. If the assets are not providing a benefit in accordance with these plans, then Council will examine alternative uses and options for these assets and seek community input to use the value in the assets to fund capital or refurbishment expenditure and thus maintain community wealth.

When acquiring new assets, the following factors will be considered as part of a cost / benefit analysis to determine the net benefit or cost of new assets:

- City's current operating surplus/deficit position
- Any additional depreciation and maintenance cost
- Any relevant interest cost and the impact on the fund's net position
- The requirement to increase rates to fund acquisition and ongoing costs
- The age, life expectancy, suitability and service potential of any asset to be replaced
- Discounted cash flow analysis, where appropriate
- Inclusion as part of a long-term plan (i.e. Capital Improvement Plan, Equipment Plan, Facility Plan, Technology Plan, etc.)

City assets will be reviewed on a regular basis and those assets identified as surplus assets (e.g. parcels of undeveloped land) or those requiring excessive maintenance costs (which exceed their benefit) may be sold to raise funds for more desirable community assets. Asset sales proceeds will not be used to fund operations or the ongoing normal/customary maintenance of existing assets. Proceeds can be held in reserve until an appropriate use is identified.

Appropriate uses for asset sales proceeds include:

- Purchases of other capital assets or refurbishments
- Development of new capital assets
- Upgrade or expansion of existing capital assets

**Environmental Sustainability**
Consistent with the principles outlined in Envision Lakeville, the Metropolitan Council 2040 Plan and the City's Comprehensive Plan, the City will include the conservation of natural resources and protection of the environment as items for analysis when making financial, economic development and community development decisions. Components that may be included in the environmental sustainability analysis include:

- Maintain water quality consistent with or more stringent than Department of Natural Resources (DNR) standards;
- Analysis of integrating energy conservation options when acquiring new assets or upgrading existing assets. Over time, work toward achieving a carbon neutral position.
- When available on a cost-efficient basis, utilize:
    - environmentally friendly products
    - Energy efficient products and
    - Energy conservation technology
    - Investigate the option to purchase of renewable energy (solar, wind, etc.) to supplement or replace current energy sources
- Include exogenous costs in fiscal analysis or cost-benefit report prepared for future operations or Capital Project acquisitions.

**Funding**
The City will work to implement funding operations and reserves that will efficiently enhance sustainability and resiliency to ensure the long-term financial viability of the City.

The City supports establishing and maintaining Capital Project Funds for the purpose of committing funds to acquire, replace, refurbish, and maintain its capital assets (i.e. vehicles, equipment, buildings, parks, infrastructure, technology, etc.).

For both operations and Capital Project Funds the City will strive to meet the goals of sustainability and resilience by including in the cost/benefit funding analysis, where practicable, estimates for exogenous costs, such as environmental remediation, accommodation of future unknown but reasonably anticipated costs due to changing future weather conditions, state or federal regulatory mandates or other factors outside City control.

The City supports reestablishing a Compensated Leave Fund for the purpose of funding the current liability for accrued leave hours due to those employees eligible to retire within the next five years as well as an estimated amount for a normal level of staff turnover, recognizing that even though this liability will be paid in the future, the liability was incurred to provide current services and should be funded with current revenues.  Funding this liability can be phased in but the City will strive to meet this goal within three to five years.

The City will charge development fees to fund new infrastructure that is needed due to growth of the community (i.e. water towers, wells, water mains, sewer mains, etc.).

The City will strive to provide stable funding sources through property taxes and other appropriate sources to fund the acquisition, replacement, refurbishment and maintenance of its capital assets, recognizing that the expenditures will fluctuate from year to year.  The City will minimize its reliance on one-time funds or operating surpluses to be used for recurring expenditures, including capital assets.

The City supports a philosophy that current and future users should pay for the depreciation of City assets; therefore, current taxation levels and fees and fund balance reserves should reflect the funds being collected to replace, refurbish and maintain its capital assets.

**User Rate/Fee Adjustments**
City's Annual Budget will include a level of revenue that reflects the cost to continue providing existing services at the defined level of service and to fund the costs included in the Asset Management Plan and investment in new capital assets as included in the Long-Term Financial Plan.

If the Council is planning to provide new or additional services, then the cost of these may require an additional rate increase. A cost / benefit analysis should be conducted for any new or additional services, to ensure the service is provided in a cost-effective manner.

Rate adjustments (Development Fees, Miscellaneous Fees, Utility Rates) will be reviewed annually in conjunction with updates to long-term plans (i.e. Capital Improvement Plan, etc.), review of current costs to provide services, etc.

The City will strive to act proactively and incrementally with rate adjustments to provide stability and predictability for residents and businesses.