

# STATEMENT OF FINANCIAL POLICIES

## GENERAL FINANCIAL GOALS

To maintain a financially viable City that can maintain an adequate level of municipal services.

To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.

To maintain and enhance the sound fiscal condition of the City.

## OPERATING BUDGET POLICIES

The City Council will adopt a balanced budget by June 30 of each year.

The City Manager will submit a budget calendar to the City Council no later than January 15th of each year.

An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.

During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.

Current revenues will be sufficient to support current operating expenditures (i.e. recurring expenditures will not exceed recurring revenues). One-time or unpredictable revenues will be used for one-time expenditures (including capital and reserves).

Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.

The purchase of new or replacement capital equipment with a value of \$25,000 or more and with a useful life of two years or more will require Council approval.

The City will project its equipment replacement needs for the next three years and will update this projection each year. From this projection a replacement schedule will be developed, funded, and implemented.

The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.

The budget will include the appropriation of available but unassigned fund balances in special purpose funds

In the Lighting and Landscaping Funds, the budget will include an appropriation of Asset Lifecycle Replacement Program reserves in an “unassigned asset replacement reserves” line item in each fund, equal to 25% of the available reserve balance, up to \$100,000.

Prior approval of the City Manager will be required for the assignment and/or use of these appropriations.

All recommended increased appropriations of general purpose revenues, General Fund reserves, or that transfer appropriations between funds during the year shall be presented to the City Council for approval. Amendments to that are made to authorize spending of increased or new special purpose revenues may be approved by the City Manager.

The City will forecast its General Fund expenditures and revenues for each of the next 10 years and will update this forecast at least annually.

## **REVENUE POLICIES**

The City will work to develop a diversified and stable revenue system to protect it from short-term fluctuations in any one revenue source.

User fees will be adjusted bi-annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.

The City will seek, and with Council approval, apply for all possible Federal and State reimbursement for mandated projects and/or programs and Federal and State grant monies for City programs and projects.

Capital improvements will be financed primarily through user fees, service charges, impact fees, or developer agreements when benefits can be specifically attributed to users of the facility. For projects financed with debt, the fees, charges, and/or contractual payments shall be established at a level sufficient to fund the project in its entirety, including the repayment of principal and interest on amounts borrowed. The City will consider future operations and maintenance costs as part of each project's financing plan and ensure that funding sources are identified to properly operate and maintain the improvements when constructed.

## **EXPENDITURE POLICIES**

The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.

Purchases shall be approved as described in the City's Municipal Code; more specifically:

Purchases for more than \$5,000 shall be supported by a Purchase Order approved by the Finance Director and City Manager, and;

Purchases for more than \$25,000 shall be approved by City Council.

## **CAPITAL BUDGET IMPROVEMENT BUDGET POLICIES**

The City will make all capital improvements in accordance with an adopted and funded capital improvement program (CIP).

The City will develop an annual Five-Year Plan for Capital Improvements, including sections for CIP design, development, implementation, and operating and maintenance costs.

The City will identify the estimated capital and ongoing operations and maintenance costs, potential funding sources and project schedule for each capital project proposal before it is submitted to the Council for approval.

<p>The City will coordinate development of the annual capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.</p>
<p>The Capital Budget will be based on the CIP, and each project's unused appropriations at each year-end will be automatically rolled over to the subsequent year, until the project is completed. Additions to project funding plans require Council approval. Changes that do not increase funding levels may be approved by the City Manager.</p>
<p>Cost tracking for components of the CIP will be implemented and updated quarterly to ensure project completion within budget and established timelines.</p>
<p>The Council will review the pavement management program each year at budget time and will seek to supplement Gas Tax, Measure J, other street improvement funds, and the Street Maintenance Reserve Fund to adequately fund the program.</p>
<p>City Impact Fees shall be used to fund the direct and indirect costs associated with capital projects identified in the City's impact fee studies.</p>

**OTHER CAPITAL IMPROVEMENT POLICIES**

<p>Design of capital improvements shall consider long-term cost efficiency and be based on standards that minimize construction costs while assuring acceptable useful life and reduce maintenance requirements.</p>
--

**SHORT-TERM DEBT POLICIES**

<p>The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.</p>
<p>The City may issue interfund loans in lieu of outside debt instruments to meet short-term cash flow needs. Such loans will be permitted only if an analysis of the lending fund indicates excess funds are available and the use of these funds will not impact its current operations. The prevailing interest rate, as established by the Finance Director, will be paid to the lending fund, and such loan shall be approved by the City Council, documented by a memorandum signed by the City Manager and filed with the Finance Department and City Clerk.</p>

Both the Original Budget adopted each year, and the Mid-Year Budget Report, will include a separate section identifying anticipated interfund loans, and the City Council's approval of these reports shall be approval of the interfund loans.

## **LONG-TERM DEBT POLICIES**

The City will confine normal long-term borrowing to capital improvement projects it is unable to fund from current revenues in time to meet community needs or where a fiscal analysis shows that a significant benefit would accrue from building sooner at current prices and at current interest rates.

When the City issues City long-term debt, it will employ a professional financial advisor to assist the City in obtaining the best possible outcomes in terms of planning, sizing, underwriting, insuring, and presentation of the City's plans and position to bond rating agencies and the public. The City will also employ the services of qualified bond counsel and, as appropriate, disclosure counsel.

When the City issues assessment type debt, it will work cooperatively with the project area Developers to identify an appropriate and acceptable financing team to obtain the best possible outcomes for the City and its citizens, and ensure compliance with all legal requirements.

The City projects that the Community Parks assessment program will, over time, be sufficient to pay for ongoing costs and repay General Fund advances (loans); but that until further development occurs in the City, the General Fund may make such advances to the Community Parks program to cover operating shortfalls. All such advances will be approved by City Council.

Both the Original Budget adopted each year, and the Mid-Year Budget Report will include a separate section identifying anticipated interfund loans, and the City Council's approval of these reports shall be approval of the interfund loans.

Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.

Proceeds of long-term debt will not be used for current ongoing operations.

The City may pledge General Fund revenues to facilitate debt; however, all debt will be supported by a dedicated revenue source identified prior to issuance that is expected to be sufficient to make the required debt service payments.

## RESERVE POLICIES

The City will maintain General Fund Emergency reserves at a level at least equal to 20% of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years) or other unforeseen catastrophic costs not covered by the Contingency Reserve. Should the balance in the reserve fall below the 20% threshold, a plan to restore the level over a period of no more than five years shall be included in each proposed annual budget reviewed with the City Council until the reserve has been returned to at least 20%.

A Contingency Reserve will be budgeted each year for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs.

The level of the Contingency Reserve will be established as needed but shall not be less than 2% of General Fund operating expenditures.

The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. At each fiscal year end, the accumulated amount in the reserve shall be adjusted to equal the projected payout of accumulated benefits requiring conversion to pay on retirement for employees then eligible for retirement. (This is so there are funds to pay out accumulated benefits requiring conversion to pay on termination).

The City Manager may release and appropriate funds from this reserve during the year, but solely for terminal pay expenditures.

Claims Reserves will be budgeted at a level which, together with purchased insurance, adequately protects the City. The City will maintain a reserve of two times its deductibles for those claims covered by the insurance pool of which the City is a member (currently the Municipal Pooling Authority of Northern California). In addition, the City will perform an annual analysis of past claims not covered by the pool, and reserve an appropriate amount to pay for uncovered claims.

The City will establish a Street Maintenance Reserve Fund for the accumulation of funds for the long-term maintenance of the City's streets. The amounts transferred into the reserve will be used to augment the City's Gas Tax, Measure J, and other street improvement revenues in completing street maintenance and improvement projects. The reserve shall be considered fully funded when the balance and the combination of anticipated special revenues eligible for street maintenance is sufficient to pay for the next 3 years' anticipated maintenance. The City shall seek to fully fund the reserve by June 30, 2018.

The City will establish a Vehicle and Equipment Replacement Reserve Fund for the accumulation of funds for the replacement of worn and obsolete vehicles and other capital equipment. The accumulated amount in the reserve will equal at least 50% of the accumulated depreciation on the City's books for these assets, plus any amounts necessary to ensure the City's ability to replace them when they reach the end of their useful lives. Network and Computer replacement will be gauged using a 3 year lifecycle.

The City will seek to build and maintain a Facilities Maintenance Capital Asset Reserve for capital costs associated with the maintenance of all City building facilities. The reserve will be maintained at a level at least equal to projected five year facilities maintenance capital costs.

Each year-end, until fully funded, all revenues in excess of expenditures in each landscaping district zone, shall increase the funds' capital asset lifecycle replacement reserve. Each zone's operating budget shall consider annual capital/asset lifecycle replacement needs.

The City will seek to build and maintain a Storm Drain Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Storm Drain program budget. The minimum reserve level will be 50% of the costs projected over the next five years.

The City will establish a Reserve for Qualifying Expenditures and will transfer into it from current revenues all amounts necessary to ensure compliance with Gann Limit provisions. These funds will be used solely to pay for Gann Limit excludable capital expenditures. To qualify, they must be for assets having a value greater than \$100,000 and having a useful life of at least 10 years.

## **INVESTMENT POLICIES**

The City Manager and Finance Director will annually submit an investment policy to the City Council for review and adoption, and shall provide the Council with quarterly investment reports.

The Finance Director will invest the City's monies in accordance with applicable laws and adopted investment policies and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance documents.

The City will maintain liquid assets at a level sufficient to pay at least six months operating expenses.

## **ACCOUNTING, AUDITING & FINANCIAL REPORTING POLICIES**

The City's accounting and financial reporting systems will be maintained in accordance with generally accepted accounting principles and standards of the Governmental Accounting Standards Board.

A capital asset system will be maintained to identify all City assets, their condition, historical and estimated replacement costs, and useful life. All equipment with a cost of \$5,000 or more and a useful life of more than two years, and all buildings, improvements and infrastructure with a cost of \$50,000 or more and a useful life of more than two years will be capitalized and included in the system. While asset purchases and disposals will be tracked and accounted for each year, unless otherwise needed, vehicles and office equipment will be inventoried and infrastructure assets will be subject to an internal audit, every 3 years on a rotating cycle, with each category reviewed in turn.

<p>Fixed Assets shall be accounted for using the following useful lives:</p> <p>Buildings – 40 years</p> <p>Improvements – 5-15 years</p> <p>Machinery &amp; Equipment – 5 years</p> <p>Vehicles – 5 years</p> <p>Roadways:</p> <p>Streets (Includes Pavement, Sidewalk, Curb &amp; Gutters, Trees &amp; Signs) – 40 years</p> <p>Traffic Signals – 25 years</p> <p>Street Lights – 40 years</p> <p>Bridges – 100 years</p> <p>Parks &amp; Recreation:</p> <p>General Improvements – 25 years</p> <p>Specialty features – 10 years</p>
<p>The Finance Department will prepare monthly reports for the City Manager and Department Heads so that they may effectively evaluate their financial performance.</p>
<p>A Mid-Year Budget Review, assessing the status of both operating and capital activities and recommending appropriate mid-year adjustments, will be submitted to the City Council and made available to the public in February each year.</p>
<p>An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.</p>
<p>Full and continuing disclosure will be provided in the City's financial statements and bond representations.</p>
<p>The City will build and maintain a good credit rating in the financial community.</p>

## **GRANT FUNDING POLICIES**

<p>The City will remain current on available local, state, and federal grant funding and seek to make the most of grant opportunities for both operations and capital projects.</p>
---

The City will establish accounting procedures to support the tracking of grant funds and their use and for the timely administration of grant programs.

Grants that the City makes to others will be such that the City retains control of funds sufficient to ensure their use is consistent with grant specifications. This is expected to be accomplished by limiting grant disbursements to reimbursements or for the City to pay agreed upon costs directly on behalf of the Grantee, all of which should be outlined in a grant agreement approved by the Council.

## **HUMAN CAPITAL INVESTMENT POLICIES**

The City will invest in its employees by maintaining a compensation structure that is based on market norms, considers internal alignment and equity among various groups of employees, supports and recognizes innovation and exceptional performance, and fosters teamwork within the organization.

## **APPROPRIATIONS CONTROL**

In addition to the Statement of Financial Policies above, the Council has established the following policy regarding Appropriations Control:

### **Appropriations requiring Council action are:**

- Appropriation of reserves, except asset replacement or accrued benefits reserves
- Transfers between funds
- Appropriations of any unassigned revenues (unassigned revenues are those revenues that are not associated with a particular business or service unit)

### **Appropriations requiring City Manager action are:**

- Transfer within a fund or department
- Appropriation of unbudgeted assigned revenues – assigned revenues support a specific business or service unit and allow expansion or contraction of that unit in response to demand.
- Appropriation of asset replacement reserves, accrued benefits reserves and unassigned balances in special purpose funds.

Appropriations of fiscal resources are approved by the City Council and managed by the City Manager