

**CITY OF EL CERRITO**

**NUMBER:** III 4

**CITY COUNCIL/REDEVELOPEMENT AGENCY**

**DATE:** May 2009

**AUTHORITY:** City Council/  
Agency Board

**SUBJECT: COMPREHENSIVE FINANCIAL  
POLICY**

**Resolution Nos. 2009-19  
585 Exh. A**

**PURPOSE:**

To establish a comprehensive set of financial policies for the City/Agency that will serve as a guideline for operational and strategic decision making related to financial matters.

**POLICY:**

The following financial policies are intended to establish a comprehensive set of guidelines for use by the City Council/Agency Board and staff on decision-making that has a fiscal impact. The goal is to maintain the City/Agency's financial stability in order to be able to continually adapt to local, regional and national economic changes. Such policies will allow the City/Agency to maintain and enhance a sound fiscal condition.

This financial policy will be reviewed annually to ensure that it remains current and the policy will be included as part of the Annual Operating Budget. The City's comprehensive financial policies shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

Deleted: during the budget process

**1. OVERVIEW & LONG-TERM FINANCIAL PLANNING**

- 1.1. The a Ten-Year Financial Plan will be prepared for all funds where operational activities are recorded, including but not limited to: the General Fund, Capital Improvements Program, Gas Tax Fund and Redevelopment Agency. The City's Ten-Year Financial Plan is the long-term picture of the City's finances and will be updated annually as part of the annual budget process.
- 1.2. The City shall seek a balance in the overall revenue structure between more stable revenue sources (e.g. Property Tax and Utility Taxes) and economically sensitive revenue sources (e.g. Sales Tax).

1.3. The City/Agency shall develop and maintain methods for the evaluation of future development and related fiscal impacts on the City budget.

1.4. The City/Agency shall develop and implement a financial plan to address its funding needs for issues like deferred maintenance and unfunded liabilities, which will be included in the City's Capital Improvement Program.

## 2. BUDGET POLICIES

2.1. The City Manager shall prepare a proposed annual budget to be reviewed by the Financial Advisory Board and presented to the City Council/Agency Board within all statutorily prescribed deadlines. The City Council/Agency Board will adopt the budget at a public hearing by June 30 of each year.

2.2. A Budget Resolution will be adopted by the City Council/Agency Board annually, which describes the budget amendment process and also specifies budget amendment authority.

2.3. All departments will participate in the responsibility of meeting the City/Agency's financial policy goals and ensure the City's long-term financial health. Budget control is maintained at the fund level.

2.4. It is the City/Agency's policy to adopt a balanced budget where operating revenue is equal to, or exceeds, operating expenditures. In the event a balanced budget is not adopted, either due to a deliberate reduction of accumulated fund balance or the cause of the imbalance is expected to last for no more than one year as with the case of a one time settlement or large purchase, the planned use of reserves to balance the budget is permitted as long as the reserve does not go below the amount determined in Section 3., General Fund Balance Reserves. In the event that a budget shortfall is expected to continue beyond one year due to anticipated economic difficulties, or recovery from one time expenditures the use of reserves must be developed as part of the Ten-Year Financial Plan detailing the actions required to close the gap through revenue increases and/or expenditure decreases within three years.

Deleted: presented

2.5. The operating budget shall serve as the annual financial plan for the City/Agency. It shall serve as the City/Agency's management plan for implementing goals and objectives of the City Council, Redevelopment Agency, City Manager and departments as well as define service levels.

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

2.7. The annual review process should include an assessment to determine if funds are available to operate and maintain proposed capital facilities and other public improvements.

2.8. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital projects and/or one-time expenditures upon approval of the City Council/Agency Board.

2.9. Where practical, the City/Agency's annual budget will include performance measures of workload, efficiency, and effectiveness.

**2.10. Revenues:**

2.10.1. The City/Agency will estimate annual revenues using an objective, analytical process; specific assumptions will be documented and maintained. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies, and/or reliable economic forecasters when available.

2.10.2. Specific revenue sources will not be dedicated for specific purposes, unless required by law or Generally Accepted Accounting Principles (GAAP). All non-tax increment, non-restricted revenues will be deposited in the General Fund and appropriated through the budget process. Tax Increment revenues will be deposited into the Redevelopment Agency.

2.10.3. On-going revenues will fund on-going expenditures and a diversified and stable revenue system will be developed and maintained to protect programs from short-term fluctuations in any single revenue source.

**2.11. Appropriations:**

2.11.1. The City/Agency shall, to the extent possible, pay for current year expenditures with current year revenues. Where authorized activities or equipment remain incomplete and/or unpurchased, revenues and/or fund balance may be carried forward at the City Manager's direction to the next fiscal year to support such an activity/purchase.

2.11.2. The City/Agency shall avoid budgetary procedures which rely on financial strategies that defer payment of current operating expenses to future years.

2.11.3. Department Heads are responsible for ensuring department expenditures stay within the department's budgeted appropriation.

2.11.4. A City Council/Agency Board Resolution is necessary to increase any total fund appropriation where no corresponding revenue offset exists that is restricted for that purpose. The City Manager may adjust appropriations within the departments of a fund.

**3. GENERAL FUND RESERVE POLICY**

3.1. The basic purpose of developing a reserve policy is to establish a level of funding that insures against unanticipated events that would adversely affect the financial condition of the city and jeopardize the continuation of necessary public services. The reserve is designed to provide adequate cash flow, protect bond ratings, offset economic downturns and revenue shortfalls and provide for one time funding in the event of an emergency situation such as a natural disaster or unanticipated liability.

Formatted: Indent: Left: 18 pt

3.2. It is a goal of the City to maintain a general operating reserve of, at a minimum, 10% of projected General Fund operating expenditures for each fiscal year. These reserves are designed to be used in the event of a significant financial emergency as defined above. Should the General Fund reserve fall below 10%, the City will develop a plan to restore the reserve percentage to 10% within three years.

Formatted: Bullets and Numbering

Deleted: as timely as possible

3.3. The City Council may establish, during the annual budget process, an "appropriated reserve" to provide funding for special projects/programs approved by City Council. This reserve would be for expenditures of a nonrecurring nature, or to meet increases in current service delivery costs.

Formatted: Bullets and Numbering

3.4. A portion of any uncommitted fund balance in excess of 10% of annual revenues resulting from the previous fiscal year's operations could be committed to capital improvement projects or used to retire existing debt, fund future liabilities or potential legislative impacts, establish or replenish equipment replacement funds, and/or establish or replenish deferred maintenance funds.

Formatted: Bullets and Numbering

3.5. One-time revenues will not be used to fund ongoing City programs. Any one-time revenue receipt during the fiscal year should be recognized and recorded in a "non-recurring revenue source" category. One-time revenue windfalls include: sales of city-owned real estate, CalPERS rebates, lump sum (net present value) savings from debt restructuring, litigation settlement, unexpected revenues, and other similar sources of revenue as designated by the City Council.

Formatted: Bullets and Numbering

3.6. The City should establish and maintain a designated reserve fund for any anticipated future expenses that will require a certain level of steady funding source, i.e. unfunded future retiree medical cost and pension cost. It is prudent to set aside these funding needs each year in order to maintain City's financial stability.

Formatted: Bullets and Numbering

#### **4. FINANCIAL REPORTING POLICIES**

##### **4.1. Accounting Standards:**

4.1.1. The City/Agency's accounting and financial reporting systems shall be maintained in conformance with all state and federal laws, generally

accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA). The City will make every attempt to implement all changes to governmental accounting practices at the earliest practicable time.

#### **4.2. Annual Audit:**

4.2.1. An annual audit will be performed by an independent public accounting firm with an audit opinion to be included with the City/Agency's published Comprehensive Annual Financial Report (CAFR). The CAFR will be submitted annually to the Government Finance Officers Association for peer review with the goal of continuing receipt of the Certificate of Achievement for Excellence in Financial Reporting.

4.2.2. The independent firm will be selected through a competitive bidding process at least once every five years. The contract may be for an initial period of three years with two additional one-year options at the City Council's discretion. The current firm may be allowed to participate in the bid process. The need for rotation of the audit staff or audit firm will be considered in the bid process. The Finance Director will review the qualifications of prospective firms and make a recommendation to the City Council. The audit contract will be awarded by the City Council.

### **5. OPERATIONAL MANAGEMENT POLICIES**

5.1. The City/Agency shall endeavor to avoid committing to new spending for operating or capital improvement purposes until an analysis of all current and future cost implications relating to those programs and projects is completed.

5.2. All pertinent departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements.

5.3. Departmental requests for increases in staffing will be thoroughly analyzed; only those that meet adopted program initiatives and policy directives will be considered. To the extent feasible, personnel cost reductions will be achieved through attrition.

#### **5.4. User Fees and Charges and Development Impact Fees:**

5.4.1. All non-enterprise user fees and charges will be examined or adjusted annually to determine the direct and indirect cost of service recovery rate. Where direct services to users can be measured, the City shall consider use of appropriate fees, charges or assessments rather than general tax funds.

5.4.2. User fees and charges for specialized services shall be established at a level related to the cost of providing such service except where the City Council has determined there is a public benefit to subsidize the service

with tax based revenue. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council following public review.

- 5.4.3. The City shall identify the costs associated with new development as a basis for establishing development impact fees. The long-term benefit of the development to the City/Agency should be considered in establishing such fees.

#### **5.5. Grant Management:**

- 5.5.1. The City shall actively pursue federal, state and other grant opportunities when deemed appropriate. Before accepting any grant, the City shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant and present that report for approval from the City Council.
- 5.5.2. The term of Grant funded positions should be clearly identified and presented to the City Council for approval. It is mandatory to disclose if General Fund revenues will be needed to fund a position after the Grant expires.
- 5.5.3. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, City resources may be substituted only after all program priorities and alternatives are considered.
- 5.5.4. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

#### **5.6. Revenue Collection Policy:**

- 5.6.1. The City/Agency will pursue revenue collection and auditing to assure that monies due the City are accurately received in a timely manner.
- 5.6.2. The City will seek reimbursement from the appropriate agency for State and Federal mandated costs whenever possible.
- 5.6.3. The City will centralize accounts receivable/collection activities so that all receivables are handled consistently.
- 5.6.4. Accounts receivable management and diligent oversight of collections from all revenue sources are imperative. Sound financial management principles include the establishment of an allowance for doubtful accounts. Efforts should be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they will be written-off from the financial statements in accordance with established policies.

## **6. FINANCIAL MANAGEMENT POLICIES**

- 6.1. Staff shall keep City Council/Agency Board apprised of financial opportunities available and shall develop appropriate recommendations.
- 6.2. All requests for City Council/Agency Board action shall include an analysis of the immediate and future fiscal impact of such action. No appropriation for new or expanded programs or staffing levels shall be approved without identifying the amount and source of available funds.
- 6.3. All externally mandated services for which funding is available shall be charged to allow for complete reimbursement of expenses including overhead.
- 6.4. **Cash Management Investment:**
  - 6.4.1. Cash and investment programs will be maintained in accordance with California Government Code Section 53600 et seq. and the City/Agency's adopted investment policy and will ensure that proper controls and safeguards are maintained. Pursuant to the Investment Policy, the Financial Advisory Board, at least annually, revises, and the City Council /Redevelopment Agency affirms, a detailed investment policy.
  - 6.4.2. Reports on the investment portfolio and cash position will be developed and presented to the Financial Advisory Board and the City Council/Redevelopment Agency in conformity with the California Government Code.
  - 6.4.3. Funds will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order.

## **7. CAPITAL IMPROVEMENT PROJECT POLICIES**

- 7.1. A Ten-year Capital Improvement Plan will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which result in a capitalized asset and have a useful (depreciable) life of two years or more.
- 7.2. The Capital Improvement Project will identify, where applicable, current operating maintenance costs and funding streams available to repair and/or replace deteriorating infrastructure and to avoid significant unfunded liabilities.
- 7.3. The City will develop and implement a post-implementation evaluation of its infrastructures condition on a specified periodic basis, estimating the remaining useful life, and projecting replacement costs.
- 7.4. The City shall actively pursue outside funding sources for all Capital Improvement Projects. Outside funding sources, such as grants, shall be used to finance only those Capital Improvement Projects that are consistent with the Ten-year Capital Improvement Project and/or local governmental priorities, and whose operating and maintenance costs will be included in future operating budget forecasts.

**7.5.** Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecasted, matched to available revenue sources, and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.

**7.6.** The City/Agency must carefully seek and analyze the appropriate type of financing instrument appropriate for financing capital projects. Several options may be available – general obligation debt, fee-supported debt, fund reserves, tax increment, etc. All debt financing mechanisms shall be carefully considered and analyzed for fiscal benefit and cost effectiveness. Long-term borrowing shall be restricted to projects too large to be financed from current revenues (pay-as-you-go). Where possible, special assessment, revenue or other self-supporting bonds shall be used in lieu of general obligation bonds.

## **8. DEBT MANAGEMENT POLICIES**

### **8.1. Issuance of Debt:**

8.1.1. The City/Agency will not use long-term debt to pay for on-going operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.

8.1.2. New debt issues, and refinancing of existing debt, must be analyzed for compatibility within the City/Agency's overall financial planning within the Ten-Year Financial Plan. The review shall include, but not be limited to, cash flow analysis and the maintenance of the City/Agency's bond rating. Annual debt service shall not produce an adverse impact upon future operations.

8.1.3. Debt financing should not exceed the useful life of the infrastructure improvement with the average (weighted) bond maturities at or below twenty years.

8.1.4. Total debt will not exceed two percent (2%) of the total assessed value of property in the City and General Fund Debt Service will not exceed 5% of operational appropriations.

### **8.2. Credit Rating:**

8.2.1. The City/Agency will seek to maintain and, if possible, improve its current bond rating(s) in order to minimize costs and preserve access to credit.

8.2.2. It is the City/Agency's goal to acquire an AAA/Aaa credit rating from all three major rating agencies. The City/Agency may pay the bond insurance which is considered as part of the rating, however, the rating agency will evaluate the structure of the bond to validate the bond rating. The factors that contribute to a high rating include the City/Agency's financial management practices, low debt levels, budgetary and fiscal controls, and accountability. To support this policy, the City/Agency will continue to

maintain its position of full financial disclosure and proactive fiscal planning.

#### **9. EQUIPMENT REPLACEMENT FUND**

9.1. The City shall maintain a dedicated fund to provide for replacement of vehicles and certain equipment. Unreserved fund balance will be available for use in the event of a fiscal emergency such as extreme economic downturn or one-time event such as a natural disaster or unanticipated liability.

9.2. Vehicle replacement will be accomplished through the use of an amortization methodology structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement of vehicles and other capital equipment. Replacement costs will be based upon equipment lifecycle and anticipated inflation.

#### **10. ENTERPRISE FUNDS**

10.1. All Enterprise Funds user fees will be examined annually to ensure that they recover all direct and indirect costs of service, provide for capital improvements and maintenance, and maintain adequate reserves.

10.2. Rate increases shall be approved by the City Council following formal noticing and a public hearing. Rate adjustments will be based on the Ten-Year Financial plan.

City of El Cerrito  
 Reerve Requirements  
 November 2009

|  |        |                      |
|--|--------|----------------------|
| General Fund Balance as of June 30, 2009   |        | <u>\$3,412,329</u>   |
| Reserve Per Resident                       | 24,000 | \$142                |
| <br>                                       |        |                      |
| FY 08-09 Operating Expenditures            |        | \$25,384,332         |
| Reserve as percentage of OP EXP            |        | 13.44%               |
| <br>                                       |        |                      |
| 10% Requirement:                           |        |                      |
| 30 days of Operations (Op Exp/365*30)      |        | \$2,086,383          |
| One time incidents                         |        | <u>\$452,050</u>     |
| 10% of Operating Expenditures              |        | <u>\$2,538,433</u>   |
| <br>                                       |        |                      |
| 15% Requirement:                           |        |                      |
| 30 days of Operations (Op Exp/365*30)      |        | \$2,086,383          |
| One time incidents                         |        | <u>\$1,721,266</u>   |
| 15% of Operating Expenditures              |        | <u>\$3,807,650</u>   |
| <br>                                       |        |                      |
| 20% Requirement:                           |        |                      |
| 30 days of Operations (Op Exp/365*30)      |        | \$2,086,383          |
| One time incidents                         |        | <u>\$2,990,483</u>   |
| 20% of Operating Expenditures              |        | <u>\$5,076,866</u>   |
| <br>                                       |        |                      |
| Reserve Deficit at 20% requirement         |        | <u>(\$1,664,537)</u> |
| <br>                                       |        |                      |
| Equipment Fund Net Assets at June 30, 2009 |        | \$734,924            |

Other items of consideration for reserve use:

Insurance - we are part of the JPA and should not have to hold for excess liability??

Equipment - That is what the Equipment Replacement Fund is for.

Facilities - We would not build a facility without a bond and the payment would have to be in the long term plan.

Unfunded Liabilities

Revenue Fluxuations- See Revenue Analysis Worksheet

**City of El Cerrito**  
General Fund Major Revenues

|                      | Property Taxes | Sales Tax    | Utility User |
|----------------------|----------------|--------------|--------------|
| Actual<br>FY 2001-02 | \$ 3,547,411   | \$ 3,455,522 | \$ 2,212,174 |
| Actual<br>FY 2002-3  | \$ 3,749,697   | \$ 3,751,988 | \$ 2,278,763 |
| Actual<br>FY 2003-04 | \$ 4,079,953   | \$ 3,656,281 | \$ 2,472,533 |
| Actual<br>FY2004-05  | \$ 4,177,400   | \$ 3,670,821 | \$ 2,525,963 |
| Actual<br>FY 2005-06 | \$ 4,601,003   | \$ 3,677,836 | \$ 2,778,452 |
| Actual<br>FY 2006-07 | \$ 5,598,471   | \$ 3,718,863 | \$ 2,775,195 |
| Actual<br>FY 2007-08 | \$ 5,582,459   | \$ 3,729,129 | \$ 2,986,759 |
| Actual<br>FY 2008-09 | \$ 5,745,014   | \$ 3,053,674 | \$ 3,145,282 |
| Budget<br>FY 2009-10 | \$ 6,084,500   | \$ 3,656,000 | \$ 3,350,000 |

(1) Measure C included- Own fund created in FY 2003-04