MEETING DATE: 6/18/07

AGENDA ITEM: Presentation and Adoption Of Revised City Council Policies: Policy # 5001 Mission Driven Budgeting and Policy # 5002 Financial Policy.

ATTACHMENTS

	Pages
1. Council Policy 5001 – Mission Driven Budgeting	
a. Existing Policy	1 – 4
b. Proposed Revised Policy	5 – 7
2. Council Policy 5002 – Financial Policy	
a. Existing Policy	8 – 12
b. Proposed Revised Policy	13 – 21

CITY OF CULVER CITY
COUNCIL POLICY STATEMENT

Policy Number **5001**

General Subject: Budget

Date Issued 1/23/95

Specific Subject: Mission Driven Budgeting

Effective Date 1/24/95

Resolution No. 95-R005

PURPOSE:

To streamline the City's budget process, promote prudent management of City funds and encourage innovation and cost effective solutions to city service needs.

STATEMENT OF POLICY:

The Mission Driven Budget is intended to be an effective management tool by encouraging good management, innovation, prudent money management, and by streamlining the budget review process. The budget process emphasizes strategy development in place of line item review. The use of the Mission Driven Budgeting could help meet Culver City's goals of financial stability, maintenance of services, and the promotion of innovative and creative management solutions to City problems.

BENEFITS OF THE NEW BUDGET PROCESS

Citizens

1. Efficient government.
2. The City organization is responsive to community needs.
3. The budget system precludes deficit spending.

Council

1. Council budget review is streamlined.
2. System insures that balanced budgets are brought to Council.
3. Council can devote more time and energy to policy issues.

Staff

1. Streamlines administrative review.

2. Fosters departmental innovation.

3. Encourages departments to efficiently deliver services.

4. Reduces competition and encourages cooperation among departments.

5. Encourages departments to review and streamline their operations for greater efficiency.

ASSUMPTIONS

With the adoption of Mission Driven Budgeting, several assumptions need to be made. The assumptions are:

1. The City Council has determined that the current mix of City services is reasonable as dictated by current budget constraints.

2. The current level of departmental services is considered to be a base starting point for implementation of the budgeting system.

3. Residential/commercial and outside regional growth impact may not affect all City departments equally.

4. Generally inflation impacts all departments equally.

5. As a Mission Driven system, performance expectations and service objectives of all departments need to be clearly established and understood.

6. Elected officials provide policy direction. The CAO and Department Heads then have the flexibility to administer operations within that overall policy framework.

7. Council will approve and maintain a balanced budget during the fiscal year.

BUDGET MECHANISM

The essential components of Mission Driven Budgeting are:

1. The annual base budget allocation shall be based on CPI change and adjusted to conservative estimates of reoccurring general fund revenues.

2. Proposals for program growth as a result of measurable workload/client increases beyond the base budget allocation shall be reviewed/recommended separately by the management team contingent on availability of funds.

3. Excess of CPI costs for <u>current</u> services (i.e. salaries/benefits, utilities, supplies, etc.) are not intended to cause an increase in the formula. Affected departments would be expected to use accumulated savings.

4. The management team may further recommend additional/revised budget needs noting impacts to service levels as appropriate.

5. Significant new/restored City programs require Council appropriation of new money - outside the base budget allocation.

6. Departments receiving approval to market specific services which generate measurable new revenues shall have the resulting net revenues counted as "savings" generated by that department.

7. All departments to receive a proportional share of savings from new general revenues (beyond CPI and growth criteria).

8. Fifty percent department savings may be carried over and used in future years by the departments upon approval from the CAO's office and concurrence by the City Council for larger expenditures.

    - Any year-end shortfall in general revenues is first deducted from department savings.

    - The "first" 2% salary/benefit savings contribution expected from all general fund departments shall also be deducted.

    - Need to separate true savings from unspent funds for services/programs funded, but not provided.

    - Savings to be reduced by carryover requests for pending capital purchases and/or incomplete programs.

    - Savings may be used for <u>temporary</u> employees or programs as funding is one time. Primary use is expected to be for needed capital items or to help departments stave off budget shortfalls.

    - Windfalls don't count.

    Forty percent of the savings are recommended to be allocated to the capital improvement and acquisition fund to help finance future City capital improvement needs. The remaining ten percent are proposed to be allocated to an Innovation Loan Fund to help finance cost saving opportunities by City departments.

9. Any change in budget methods (i.e. redistribution of utility costs) shall be incorporated in allowable budget adjustments to avoid any advance impact on departmental budgets.

APPROPRIATION CONTROL

Appropriation control shall be established at the full division or project level which would allow the departments some flexibility in using the funds within their respective budgets and save a considerable amount of administrative time previously spent processing most transfers. Only transfers between personnel, operating and capital categories would be required. Such a policy could serve to reduce administrative time and cost subject to the following policy criteria:

1. Position controls remain unchanged. Departments and divisions would still require CAO and Council approval for any new, substitute or reclassified positions. (Underfill/overfill of positions within the same class would be allowable within budget limitations.) Except as provided annually by the CAO and City Council, a modified hiring freeze continues in effect.

2. No transfers of salary and benefit monies to other department/division accounts would be allowed unless the department has achieved its "salary savings" commitment for the year.

3. Purchase of capital equipment shall require a specific budget appropriation. Any changes and/or capital additions shall require CAO approval and a transfer identifying the source of funding.

4. Significant changes in department or division operations affecting service or service levels different from what was agreed to in the adopted budget shall have the prior approval of the CAO and as appropriate the City Council.

5. Except for identified capital and recognized seasonal expenditures, a department/division budget that consistently exceeds what would be considered a "normal spending pattern" shall revert back to line item appropriation control as determined by the Chief Administrative Officer.

   NOTE: A "normal spending pattern" would be defined as being the rate of spending comparable to the same time period in previous fiscal year.

CITY OF CULVER CITY
COUNCIL POLICY STATEMENT

Policy Number **5001**

General Subject: Budget

Specific Subject: Mission Driven Budgeting

Date Issued 1/23/95

Date Revised 6/18/07

Effective Date 1/24/95

Resolution No. 95-R005

PURPOSE:

To streamline the City's budget process, promote prudent management of City funds and encourage innovation and cost effective solutions to city service needs.

DEFINITION:

Mission Driven Budgeting focuses on planning and evaluation, accountability, and financial management. It integrates principles of management-by-objectives, program budgeting, and performance reporting, and emphasizes the allocation of resources based on agreed upon missions and work programs.

STATEMENT OF POLICY:

The Mission Driven Budget is intended to be an effective management tool by encouraging good management, innovation, prudent money management, and by streamlining the budget review process. It emphasizes strategy development over line item review. The use of the Mission Driven Budgeting assists in meeting Culver City's goals of financial stability, maintenance of services, and the promotion of innovative and creative management solutions to City problems.

BENEFITS OF THE MISSION DRIVEN BUDGET PROCESS

Citizens

1. Efficient government.
2. The City organization is responsive to community needs.
3. The budget system precludes deficit spending.

Council

1. Council budget review is streamlined.
2. System insures that balanced budgets are brought to Council.
3. Council can devote more time and energy to policy issues.

Staff

1. Streamlines administrative review.
2. Fosters departmental innovation.
3. Encourages departments to efficiently deliver services.
4. Reduces competition and encourages cooperation among departments.
5. Encourages departments to review and streamline their operations for greater efficiency.

ASSUMPTIONS

With the implementation of Mission Driven Budgeting, several assumptions are made. The assumptions are:

1. The City Council has determined that the current array of City services is reasonable.
2. Each department's existing on-going funding level provides the starting point for implementation for the following budget cycle.
3. Residential/commercial and outside regional growth impact may not affect all City departments equally.
4. Generally inflation impacts all departments equally.
5. As a Mission Driven system, performance expectations and service objectives of all departments need to be clearly established and understood.
6. Elected officials provide policy direction. The City Manager and Executive Management then have the flexibility to administer operations within that overall policy framework.
7. Council will approve and maintain a balanced budget during the fiscal year.

BUDGET MECHANISM

The essential components of Mission Driven Budgeting are:

1. The annual base budget allocation shall be based on CPI change and adjusted to conservative estimates of recurring General Fund revenues.

2. Proposals for program growth as a result of measurable workload/client increases beyond the base budget allocation shall be reviewed/recommended separately by the management team contingent on availability of funds.

3. Excess of CPI costs for current services (i.e. salaries/benefits, utilities, supplies, etc.) are not intended to cause an increase in the formula. Affected departments would be expected to use accumulated savings.

4. The management team may further recommend additional/revised budget needs as appropriate, noting impacts to service levels.

5. Significant new/restored City programs require City Council appropriation of new money - outside the base budget allocation.

6. Any change in budget methods (i.e. redistribution of Workers Compensation cost allocation) shall be incorporated in allowable budget adjustments to avoid any unanticipated impact on departmental budgets.

APPROPRIATION CONTROL

Appropriation control shall be established at the full division or project level which would allow the departments some flexibility in using the funds within their respective budgets and save a considerable amount of administrative time processing the excessive budget transfer requests. Only transfers between personnel, operating and capital categories must be reviewed and approved by the City Manager or his/her designee. Such a policy serves to reduce administrative time and cost subject to the following policy criteria:

1. Position controls remain unchanged. Departments and Divisions will require City Manager and City Council approval for any new, substitute or reclassified positions. (Underfill/overfill of positions within the same class would be allowable within budget limitations.) Except as provided annually by the City Manager and City Council, a modified hiring freeze continues in effect.

2. Purchase of capital equipment shall require a specific budget appropriation. Any changes and/or capital additions shall require City Manager approval and a transfer identifying the source of funding.

3. Significant changes in department or division operations affecting service or service levels different from what was agreed to in the adopted budget shall have the prior approval of the City Manager and as appropriate by the City Council.

CITY OF CULVER CITY
COUNCIL POLICY STATEMENT

Policy Number **5002**

General Subject: Budget

Date Issued 1/23/95

Specific Subject: Financial Policies

Effective Date 1/24/95

Resolution No. **95-R005**

PURPOSE:

To establish long and short range financial policies for the City.

STATEMENT OF POLICY:

A. LONG-TERM PLANNING

1. The City shall seek a better balance in the overall revenue structure between stable and economically sensitive revenues. When new revenue sources are proposed, they should be designed to achieve the desirable balance.

2. The City shall enhance the economic development of the community as a whole through prudent long-range financial planning to encourage desirable businesses to locate in the City of Culver City.

3. The City shall develop and maintain methods of forecasting future revenues and expenditures. These methods shall project the City's future revenues and expenditures through a variety of methods including but not limited to forecasts of the economy and future development of the City. Each year, the City will update revenue and expenditure projections for the next four fiscal years to include current information; a revised fiscal forecast will be submitted to City Council during the budget process.

4. The City shall develop and maintain a projection of capital improvement needs for the next five years based on General Plan, Specific Plans, and on City Council approved projects consistent with projected revenue and expenditure constraints. Future planning should consider periods of revenue surplus and shortfall and adjust future programs accordingly. Planning for Capital Improvement Projects shall also consider operating and maintenance cost impacts.

5. The City shall develop and maintain methods for the evaluation of future development in the City and the related fiscal impacts on the City budget.

6. The Staff shall keep City Council apprised of financial opportunities available to the City and shall develop appropriate recommendations.

7. The City shall avoid using one time revenues to subsidize an ongoing imbalance between operating revenues and expenditures unless a five-year forecast shows no continuance of structural operating deficits.

8. The City shall develop and implement a financial plan to address its unfunded liabilities.

9. Cost analysis of salary increases shall be based on direct salary plus City share of fringe benefits and pay for time not worked; and be projected over at least a five-year period.

B. **REVENUE**

1. The City will estimate annual General Fund revenues using an objective, analytical process; specific assumptions will be documented and maintained. In instances where there is uncertainty as to assumptions, conservative revenue projections shall be provided.

2. The City shall annually, project revenues for the current and following four years, re-evaluating each existing and potential revenue source. These revenue projections and their assumptions shall be included in a forecast submitted to the City Council during the annual budget process.

3. The City shall prepare quarterly reports which discuss revenue projections in light of actual receipts, and shall provide new projections, as appropriate.

4. The City shall identify basic tax-provided services and will establish user fees and charges for services provided in excess of basic services and/or to non-taxpaying users.

5. Where direct services to citizens can be measured, the City shall consider use of appropriate fees, charges or assessments rather than general tax funds.

6. 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.

7. Annually the City will review the cost of activities supported by user fees to identify the impact of inflation and other cost increases. Fees shall be adjusted where appropriate to reflect these increases.

8. Enterprise funds (refuse/sewer/transit) shall be fully supported from their own revenue sources. This support shall include covering indirect costs such as General Fund services and annual depreciation.

9. 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 should be considered in establishing such fees.

C. APPROPRIATION

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

2. The City shall avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses.

3. The City shall develop and implement a five year infrastructure, facilities and equipment maintenance/replacement plan, which shall be updated annually. A further goal shall be the development of a maintenance plan for all infrastructure, facilities and equipment over their expected life.

4. Department Heads shall be held accountable for assuring that department expenditures stay within the department's budget appropriation, and through the Chief Administrative Oficcer will notify the City Council immediately of the necessity to overexpend any department appropriation, prior to such overexpenditure.

5. All requests for City Council 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. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

D. CAPITAL IMPROVEMENTS

1. The Capital Improvement Program is budgeted on a multi-year basis. Monies shall be allocated to projects when they become available regardless of the fiscal year in which construction will actually take place. The annual expenditure increment for any Capital Improvement project shall be contained within the appropriate annual budget categories.

2. The budget shall contain an annual allocation and an additional four-year revenue projection and needs analysis which specifies the revenue sources and allocation schedule for individual projects. This five-year plan shall be updated annually.

3. Unexpended capital project budgets shall be carried forward to future fiscal years to complete the intent of the original budget, contingent upon reappropriation by the City Council.

4. The City shall actively pursue outside funding sources for all projects for the CIP funding. Outside funding sources, such as grants, shall be used to finance only those Capital Improvement Projects that are consistent with the Five Year CIP and local governmental priorities, and whose operating and maintenance costs have been included in future operating budget forecasts.

5. Use of Bonds and/or Certificates of Participation to fund capital improvements shall be considered when it is cost effective or necessary to do so to meet a public need. Long-term borrowing shall be restricted to projects too large to be financed from current revenues. Where possible, special assessment, revenue or other self-supporting bonds shall be used in lieu of general obligation bonds.

E. FUND BALANCE/RESERVE

1. The City shall maintain a reserve in the General Fund for cash flow, emergencies and economic uncertainties at a minimum of 10% of projected General Fund expenditures for each fiscal year.

2. The City shall establish, at the beginning of each fiscal year, an "appropriated reserve" to provide funding for special projects which are approved after the annual budget is adopted, for unanticipated expenditures of a nonrecurring nature, or to meet unexpected increases in current service delivery costs. The amount of this reserve shall be established annually by the City Council.

3. A portion of any uncommitted fund balance from the previous fiscal year should be committed to capital improvement projects.

4. One-time funds should not be used for ongoing City programs. Such monies should be committed to Capital Improvement Projects or other one-time programs.

5. The City shall maintain a fund with a sufficient balance for eventual replacement of vehicles, equipment and facilities.

CITY OF CULVER CITY
COUNCIL POLICY STATEMENT

Policy Number **5002**

General Subject: Finance

Specific Subject: Financial Policies

Date Issued 1/23/1995

Date Revised 6/18/2007

Effective Date 7/1/2007

Resolution No. _____

PURPOSE:

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

STATEMENT OF POLICY:

The following financial policies are intended to establish a comprehensive set of guidelines for use by the City Council and City staff on decision-making that has a fiscal impact. The goal is to maintain the City's financial stability in order to be able to continually adapt to local and regional economic changes. Such policies will allow the City to maintain and enhance a sound fiscal condition. This policy should be implemented in conjunction with associated subsidiary policies, i.e. Mission Driven Budgeting Policy (5001), Purchasing Policy, Investment Policy, Grants Policy, etc.

This financial policy will be reviewed annually to ensure that it remains current. The policy will be included as part of the City's annual Adopted 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).

LONG-TERM FINANCIAL PLANNING

1. 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 and Transient Occupancy Tax). When new revenue sources are proposed, they should be designed to achieve a desirable balance.

2. The City shall encourage the economic development of the community as a whole in order to provide stable and increasing revenue streams. It should be the City's goal to not only attract new businesses but also to retain successful businesses in the City. Objectives of the revenue strategy should also include: avoiding an over reliance on revenue from any one particular industry; recruitment and retention efforts to ensure a balance of revenue sources;

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ensuring compatible uses; encouraging business synergies; and promoting the growth of amenities and ancillary services to support business districts and established industries.

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

4. The City shall develop and implement a five-year infrastructure, facilities and equipment maintenance/replacement plan, which shall be updated annually and included in the City's Comprehensive Financial Plan. From this plan a maintenance and replacement schedule will be developed and followed.

5. The City 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 Comprehensive Financial Plan.

OPERATING BUDGET POLICIES

1. The City Manager shall prepare and present a proposed two-year budget to the City Council within all statutorily prescribed deadlines. The City Council will adopt the first year budget with conceptual approval of the second year budget. A public hearing will be conducted in June of each year to adopt the budget.

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

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

4. It is the City'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 attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases and/or expenditure decreases.

5. The operating budget shall serve as the annual financial plan for the City. It shall serve as the City's management plan for implementing goals and objectives of the City Council, City Manager and departments. The budget shall provide staff the resources necessary to accomplish City Council determined service levels.

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.

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. If funding is not available for operations and maintenance costs, the City will delay construction of new projects.

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 General Fund expenditures upon approval of the City Council.

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

10. The City's Comprehensive Financial Plan (Plan) is a long-term picture of the City's finances and will be updated annually as part of the annual budget development. The Plan shall include forecasted expenditures and revenues of at least five (5) years for each fund; however, a ten (10) year forecast is preferred. The update will include an analysis of any substantial discrepancies of previous projections.

Revenues:

1. The City will estimate annual General Fund 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. Specific revenue sources will not be dedicated for specific purposes, unless required by law or Generally Accepted Accounting Principles (GAAP). All non-restricted revenues will be deposited in the General Fund and appropriated through the budget process.

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.

Appropriations:

1. The City shall, to the extent possible, pay for current year expenditures with current year revenues. Where authorized activities/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. The City shall avoid budgetary procedures which rely on financial strategies that defer payment of current operating expenses to future years.

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

4. The City Manager will notify the City Council immediately of the necessity to increase any departmental appropriation; a budget amendment needs to be approved by a 4/5th vote of the City Council prior to such over-expenditure.

GENERAL FUND RESERVE POLICY

1. It is a goal of the City to maintain a general operating reserve of, at a minimum, 25% of projected General Fund operating expenditures for each fiscal year and an additional 5% for emergency situations (excluding debt service, fund transfers, and encumbered funds). These reserves are designed to be used in the event of a significant financial emergency. Should the General Fund reserve fall below 30%, the City will implement measures to restore the reserve percentage to 30% in the following fiscal year.

2. The City shall establish, at the beginning of each fiscal year, an "appropriated reserve" to provide funding for special projects/programs approved by City Council after the annual budget is adopted, for unanticipated expenditures of a nonrecurring nature, or to meet unexpected increases in current service delivery costs. The amount of this reserve will be approved annually by the City Council.

3. A portion of any uncommitted fund balance in excess of 30% of annual revenues resulting from the previous fiscal year's operations should be committed to capital improvement projects or should be 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.

4. One-time funds should **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.

5. 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.

FINANCIAL REPORTING POLICIES

Accounting Standards:

1. The City'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.

Annual Audit:

1. An annual audit will be performed by an independent public accounting firm with an audit opinion to be included with the City's published Comprehensive Annual Financial Report (CAFR).

2. The independent firm will be selected through a competitive bidding process at least once every five years. The contract will be for an initial period of three years with two additional one-year options at the City Council's discretion. The Budget & Finance subcommittee and City Manager will review the qualifications of prospective firms and make a recommendation to the City Council. The audit contract, and any extensions, will be awarded by the City Council.

OPERATIONAL MANAGEMENT POLICIES

1. The City 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.

2. All 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.

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.

User Fees and Charges and Development Impact Fees:

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.

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.

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 should be considered in establishing such fees.

Grant Management:

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.

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.

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.

4. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

Revenue Collection Policy:

1. The City will pursue revenue collection and auditing to assure that monies due the City are accurately received in a timely manner.

2. The City will seek reimbursement from the appropriate agency for State and Federal mandated costs whenever possible.

3. The City should centralize accounts receivable/collection activities so that all receivables are handled consistently.

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 should be written-off from the financial statements.

FINANCIAL MANAGEMENT POLICIES

1. Staff shall keep City Council apprised of financial opportunities available to the City and shall develop appropriate recommendations.

2. All requests for City Council 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.

3. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

Cash Management Investment:

1. Cash and investment programs will be maintained in accordance with California Government Code Section 53600 et seq. and the City's adopted investment policy and will ensure that proper controls and safeguards are maintained. Pursuant to State law, the City, at least annually, revises, and the City Council affirms, a detailed investment policy.

2. Reports on the City's investment portfolio and cash position will be developed and presented to the City Council on a quarterly basis, in conformity with the California Government Code.

3. City funds will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order.

CAPITAL IMPROVEMENT PROJECT POLICIES

1. A five-year Capital Improvement Plan must 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.

2. The capital improvement plan 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.

3. The City should 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.

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

five-year Capital Improvement Project and local governmental priorities, and whose operating and maintenance costs have been included in future operating budget forecasts.

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.

6. The City must carefully seek and analyze the appropriate type of financing instrument appropriate for financing capital projects. Several options are available – general obligation debt, fee-supported debt, fund reserves, 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.

DEBT MANAGEMENT POLICIES

Issuance of Debt:

1. The City 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.

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

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

4. A ratio of current assets to current liabilities of at least 2 to 1 will be maintained to ensure the City's ability to pay short-term obligations (i.e. current assets/current liabilities ≥ 2).

Credit Rating:

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

2. It is the City's goal to maintain an AAA/Aaa credit rating from all three major rating agencies. The factors that contribute to a high rating include the City's

financial management practices, low debt levels, budgetary and fiscal controls, and accountability. To support this policy, the City will continue to maintain its position of full financial disclosure and proactive fiscal planning.

INTERNAL SERVICE FUNDS

Self Insurance Fund:

1. The Self-insurance fund pays for insurance premiums, benefit and settlement payments, and administrative and operating expenses. It is supported by charges to other City funds for the services it provides. These annual charges for service shall reflect the five-year historical experience and shall be set to equal the annual expenses of the fund.

2. Self-insurance reserves (Liability and Workers' compensation) will be maintained at a level which, together with purchased insurance policies, adequately indemnify the City's property, liability, and health benefit risk. A qualified actuarial firm shall be retained on an annual basis in order to recommend appropriate funding levels, which will be approved by Council. The City shall endeavor to maintain reserves equal to 30% of the net present value of such future liabilities, with no less than $2 million to cover potential swings in working capital.

Equipment Replacement Fund:

1. The City shall maintain a fund with a sufficient balance for replacement of vehicles, equipment (including technology and communication equipment)

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 (fleet, computers, phones, copiers, etc.). Replacement costs will be based upon equipment lifecycle financial analysis.

ENTERPRISE FUNDS (Includes Sewer Fund, Refuse Fund and Transportation Fund)

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.

2. Rate increases shall be approved by the City Council following formal noticing and a public hearing. Rate adjustments for Sewer Fund operations will be based on five-year financial plans unless the City Council directs otherwise.