

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.

Pay-as-you-go Capital Improvement Plan financing should account for a minimum of 50 percent of all capital improvement projects for each five-year planning period. Pay-as-you-go financing is defined as all sources of revenue other than City debt issuance, i.e., fund balance contributions, developer contributions, grants, endowments, etc. Pay-as-you-go financing should generally be considered as the preferred option. However, the potential for debt issuance that provides additional economic and/or strategic values could be considered as recommended by the Director of Finance.

The City, through the Director of Finance and the Finance Department, shall endeavor to apply restricted funds (i.e., in-lieu parking, gas tax funds or existing bond proceeds) to capital projects before using “unrestricted” funds.

## Section 4. Reserve Policies

### Governmental Funds (General, Infrastructure, Special Revenue)

All fund designations and reserves will be evaluated annually by the Director of Finance for long-term adequacy and use requirements in conjunction with development of the City’s balanced five-year financial plan. In adhering to GAAP, the City follows appropriate Governmental Accounting Standards Board (GASB) Statements, one of which, No. 54 (GASB 54), addresses Fund Balance Reporting. Compliance with GASB 54 requires use of the terms below to define various components of fund balance. Reserves are presented in the Annual Comprehensive Financial Report (ACFR) in the Financial Statement section designated using the definitions below. The City’s ACFR is available on the City’s website at <https://www.beverlyhills.org/328/Annual-Comprehensive-Financial-Report-AC>.

For future reporting of City reserves, these terms shall be used to define what comprises the reserve.

- a) **Nonspendable fund balance** (inherently nonspendable) includes the:
  - Portion of net resources that cannot be spent because of their form, and
  - Portion of net resources that cannot be spent because they must be maintained intact.
- b) **Restricted fund balance** (externally enforceable limitations on use) includes amounts subject to:
  - Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments;
  - Limitations imposed by law through constitutional provision or enabling legislation.
    - i. The City’s Section 115 Trust for OPEB and pension liabilities falls into this category.

- c) **Committed fund balance** (self-imposed limitation set in place prior to the end of the period):
- Limitation imposed at the highest level of decision making that requires formal action at the same level to remove. For the City, the City Council is the highest level of decision making.
  - Resources accumulated pursuant to stabilization arrangements would fit in this category only if the arrangement is specific regarding the circumstances when spending would be permitted, and those circumstances would need to be of a non-routine nature.
    - i. The City's economic/contingency reserves and budget stabilization reserves fall into this category.
- d) **Assigned fund balance** (limitation resulting from intended use) consists of amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be established by:
- The governing body itself (City Council), or
  - A body (a budget or finance committee, for example) or designated official to which the governing body has delegated authority to assign amounts to be used for specific purposes. For the City, the Director of Finance is the designated official.
    - i. This section includes encumbrances assigned for the procurement of goods and services.
- e) **Unassigned fund balance** (residual net resources) is the:
- Total fund balance in excess of nonspendable, restricted, committed, and assigned fund balance.

### **General Fund Economic/Contingency Reserve (Committed)**

It is a goal of the City to obtain and maintain a general operating reserve in the form of cash and investments, of at least 40% of operating expenditures. The first 25% of operating expenditures shall be considered a contingency reserve to cover normal seasonal cash flow variations, as well as unforeseen emergency or catastrophic impacts upon the City. The remaining 15% of operating expenditures may be used for short term economic investment in the community when justified by projected financial return to the City and specifically authorized by the City Council, upon recommendation of the Director of Finance. The Director of Finance will calculate the annual reserves based on year-end actual expenditures in conjunction with the Annual Comprehensive Financial Report (ACFR). Should economic or other conditions result in decreased total annual expenditures as compared to the immediately preceding year, reserves shall remain at the prior year's reserve level and shall not be decreased without approval of the City Council.

### **Budget Stabilization Reserve (Committed)**

Beginning in 2013, the City Council also began setting aside additional funds from its operating surplus as an additional budget stabilization fund for meeting future unexpected revenue shortfalls. The Director of Finance shall endeavor to evaluate and propose changes to the budget stabilization reserve based on additional one-time revenue received and annual surplus revenues for City Council approval.

### Internal Service Funds

In addition to cash specifically maintained in the General Fund, the City recognizes the following cash reserve resources as being available to meet sudden negative fiscal impacts in the short term:

- Equipment Replacement Fund (Fund 400)
- Capital Assets Fund (Fund 405)
- Information Technology Fund (Fund 410)
- Cable Television Fund (Fund 420)
- Reprographics/Graphics Fund (Fund 430)
- Compensated Absences Fund (Fund 441)
- Liability Insurance Fund (Fund 450) (only in excess of required reserves)
- Workers' Compensation Insurance Fund (Fund 460) (only in excess of required reserves)
- Policy, Administration, and Legal Fund (Fund 480)
- Vehicle Replacement Fund (Fund 490)

Sufficient reserves shall be maintained in internal service funds to prevent extended disruption of service in the event of natural disasters or other interruptions of revenue collections. Where more than sufficient reserves are being maintained, the excess can be used to offset current expenditure needs. Determination of adequate or excess reserves will be reviewed annually by the Director of Finance and guided by the following:

Self-Insurance Reserves (liability, workers' compensation, other): The Director of Finance shall endeavor to maintain these reserves at a level, which, together with purchased insurance policies, will adequately cover the City's property, liability, and health benefit risk from one-time fluctuations. A qualified actuarial firm shall be retained on, at minimum, a biennial basis in order to recommend appropriate funding levels. The City shall endeavor to maintain cash reserves equal to 75% of the probable and reasonably estimable claim liabilities and 50% of the incurred-but-not-reported (IBNR) amount determined by the actuary. To lessen the impact of short-term annual rate change fluctuation, City management may implement one-time fund transfers (rather than department rate increases) when funding shortfalls appear to be due to unusually short and non-recurring factors.

The City shall endeavor to maintain reserves for systematic replacement of fleet vehicles, building components and systems, computers and related equipment, and operational contingencies based upon lifecycle replacement plans to ensure adequate fund balance required. Operating departments will be charged over the useful life of the asset used. The City shall endeavor to stabilize funding by building reserves equal to the anticipated replacement cost of each asset class at the end of useful life.

**Enterprise Fund Reserves**

Enterprise Funds include the Water, Parking Operations, Solid Waste, Wastewater, and Stormwater funds. Generally, user fees and charges will be examined periodically to ensure that they recover all direct and indirect costs of service, provide for capital improvements and maintenance, and maintain adequate reserves. Secondly, maintenance of cash reserves will provide a de facto rate stabilization plan. Rate increases shall be approved by the City Council following formal noticing and public hearing. Rate adjustments for enterprise operations will be based on five-year financial plans unless a conscious decision is made to the contrary. The target level of operating cash reserves shall be 50% of annual operating expenses. For the Stormwater fund, as a result of compliance requirements, General Fund subsidies are used in lieu of a reserve.

**One-time Additional Revenue**

The City should endeavor to use one-time additional revenue to further increase reserves or for one-time expenditures, or to reduce debt or other liabilities. The funds should not to be used for ongoing operations.

For purposes of this policy, examples of one-time additional revenue include (but are not limited to):

- Lump sum (net present value) savings from debt restructuring
- Sale of City-owned real estate
- Unexpected revenue (e.g. litigation settlement)
- Receipts from approved development agreements
- Contributions and gifts

**Section 5. Audit Policies**

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

The City Council will maintain a standing committee of its members to serve as the Audit and Finance Committee to provide oversight and review of the annual and special audits of the City. The Committee will meet at least twice annually with the City's independent auditor, once for a pre-audit meeting, and once for a review of the final audit results.

# BUDGET USER'S GUIDE



## City of Burbank Financial Policies

1. We will maintain a designated General Fund working capital reserve equivalent to 15 percent of the General Fund's operating budget, a designated emergency reserve equivalent to 5 percent of the General Fund's operating budget, and a budget stabilization reserve equivalent to up to 5 percent of the General Fund's operating budget.
2. We will maintain a balanced operating budget for all governmental funds with recurring revenues equal to or greater than recurring expenditures. Appropriations of available fund balance will only be permitted for "one-time" non-recurring expenditures.
3. We will assume that normal revenue inflation and/or growth will go to pay normal inflation expenditures. In no event will normal expenditure increases be approved which exceed normal revenue inflation and/or growth. Any new or expanded programs will be required to identify new funding sources and/or offsetting reductions in expenditures in other programs.
4. We will require that all Enterprise Funds have revenues (customer charges, interest income, and all other income) sufficient to meet all cash operating expenses, depreciation expense, and prescribed cash reserve policies per financial policies as recommended for each enterprise activity. Additionally, each Enterprise Fund will maintain debt service coverage requirements set forth in any related bond covenants.
5. We will require that each Internal Service Fund which includes vehicles, equipment, and building maintenance have revenues, (City user charges, interest income, and all other income) sufficient to meet all cash operating expenses and depreciation expenses. The related revenues should also be sufficient to maintain cash reserves, which provide sufficient cash to replace vehicles and equipment in accordance with replacement policies.
6. We will maintain appropriate reserves in the Risk Management Self-Insurance Fund and the Workers' Compensation Self-Insurance Fund to meet statutory requirements and actuarially projected needs.
7. We will maintain a general operating reserve, which will support operations for each Enterprise Fund during times of financial emergencies. The amount of the general operating reserves will be determined based on a risk assessment of each Enterprise Fund.
8. We will maintain other Enterprise Fund reserves such as debt reduction and capital funding reserves, fleet replacement reserves, and general plant reserves (in addition to the general operating reserve and other reserves) as necessary and prudent for the operation of the specific Enterprise Fund. Such reserves will be reviewed as necessary during the annual budget process, or at least every two years.
9. We will maintain a long-range fiscal perspective using an annual operating budget, a five-year capital improvement plan, and a five-year financial forecast.
10. We will use long-term financing methods or cash accumulated in excess of policy requirements for major capital improvements and acquisitions. These improvements will be planned via the annual capital improvement plan process.
11. We will issue bonds or incur other terms of indebtedness only for appropriate purposes and only if the debt service does not affect the City's ability to meet future operating, capital, and reserve requirements.
12. We will require each budget appropriation request to include a fiscal impact analysis.
13. We will comply with all the requirements of "Generally Accepted Accounting Principles."

## APPENDIX C

### CITY OF CULVER CITY COUNCIL POLICY STATEMENT

Policy Number **5003**

General Subject: Finance

Date Issued **6/24/14**Specific Subject: Recreational Facilities  
Reserve

Dates Revised

Effective Date **6/24/14**Resolution No. **2014-R057**

#### PURPOSE:

To set aside a portion of fees to mitigate additional facility or equipment wear and tear created by fee based programs that are not self-supporting.

#### STATEMENT OF POLICY:

The instructional recreational programs for children and adults provided by the Parks, Recreation & Community Services Department will be conducted for a fee to offset associated cost with managing such programs. Registration fees will be based on an amount sufficient to acquire independent contractors, class materials and the administrative overhead and a facility use fee. Occasionally, it may be necessary to conduct programs in which revenues are not sufficient to be self-supporting. The Parks, Recreation & Community Services Director or designee is authorized to enter into agreements for securing independent contractors for approved instructional recreation activities.

Certain fee based activities create additional wear and tear on equipment and facilities. In these cases, it is appropriate to set aside a portion of the annual fees to replace or mitigate the accelerated aging of the equipment or facility being used. A sum of money equivalent to 10% of the gross annual revenues derived from park and facility rental fees, program fees, class fees, etc. shall be set aside into a Recreational Facilities Reserve for equipment replacement or facility refurbishment. Following is a comprehensive list of revenue codes from the PRCS Department that will be the basis of this calculation:

<u>Object</u>	<u>Title</u>
365160	After School Program
365710	Senior Center Rental
365720	Teen Center Rental
365730	Meeting Room Rental
365740	Auditorium Rental
365210	Day Camp Fees

365220	Youth Camp Fees
365240	Recreation Park & Picnic Permits
365250	Park Programs Revenue
365310	Youth Sports Program Revenue
365350	Adult Sports Program Revenue
365410	Classes – Contracted Fees
365510	City Plunge (Pool) Admissions
365520	Pool Rentals & Passes
365530	Aquatics Programs
365540	Aquatics Contract Classes

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. Financing of capital improvement projects shall be considered pursuant to the Debt Management Policy section.

#### **VIII. FINANCIAL RESERVES POLICY:**

Prudent financial management dictates that some portion of the funds available to the City be reserved for future use.

As a general budget principle concerning the use of reserves, the City Council decides whether to appropriate funds from Reserve accounts. Even though a project or other expenditure qualifies as a proper use of Reserves, the Council may decide that it is more beneficial to use current year operating revenues or bond proceeds instead, thereby retaining the Reserve funds for future use. Reserve funds will not be spent for any function other than the specific purpose of the Reserve account from which they are drawn without specific direction in the annual budget; or by a separate City Council action. Information regarding Annual Budget Adoption and Administration is contained in City Council Policy 5001.

##### Governmental Funds and Fund Balance Defined

Governmental Funds including the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds and Permanent Funds have a short-term or current flow of financial resources, measurement focus and basis of accounting and therefore, exclude long-term assets and long-term liabilities. The term Fund Balance, used to describe the resources that accumulate in these funds, is the difference between the fund assets and fund liabilities of these funds. Fund Balance is similar to the measure of net working capital that is used in private sector accounting. By definition, both Fund Balance and Net Working Capital exclude long-term assets and long-term liabilities.

##### Proprietary Funds and Net Working Capital Defined

Proprietary Funds including Enterprise Funds and Internal Service Funds have a long-term or economic resources measurement focus and basis of accounting and therefore, include long-term assets and liabilities. This basis of accounting is very similar to that used in private sector. However, instead of Retained Earnings, the term Net Position is



Position includes both long-term assets and liabilities, the most comparable measure of proprietary fund financial resources to governmental Fund Balance is Net Working Capital, which is the difference between current assets and current liabilities. Net Working Capital, like Fund Balance, excludes long-term assets and long-term liabilities.

Governmental Fund Reserves (Fund Balance)

For Governmental Funds, the Governmental Accounting Standards Board (“GASB”) Statement No. 54 defines five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and are therefore “Spendable.” The classifications also are intended to identify the extent to which fund balance is constrained by special restrictions, if any. Applicable only to governmental funds, the five classifications of fund balance are as follows:

<u>CLASSIFICATIONS</u>	<u>NATURE OF RESTRICTION</u>
Non-spendable	Cannot be readily converted to cash
Restricted	Externally imposed restrictions
Committed	City Council imposed commitment
Assigned	City Manager/CFO assigned purpose/intent
Unassigned	Residual balance not otherwise restricted

A. Non-spendable fund balance: That portion of fund balance that includes amounts that are either (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. Examples of Non-spendable fund balance include:

1. Reserve for Inventories: The value of inventories purchased by the City but not yet issued to the operating Departments is reflected in this account.
2. Reserve for Long Term Receivables and Advances: This Reserve is used to identify and segregate that portion of the City’s financial assets which are not due to be received for an extended period, so are not available for appropriation during the budget year.
3. Reserve for Prepaid Assets: This reserve represents resources that have been paid to another entity in advance of the accounting period in which the resource is deducted from fund balance. A common example is an insurance premium, which is typically payable in advance of the coverage period. Although prepaid assets have yet to be deducted from fund balance, they are no longer available for appropriation.

B. Restricted fund balance: The portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The City operates approximately twenty special revenue funds that account for items such as gas tax revenues distributed by the State, local return portions of County-wide sales tax overrides dedicated to transportation, grants from federal or State agencies with specific spending restrictions, Section 8 and CDBG

number of others. Since these funds are established because of the specific spending limitations on them, any year-end balances are still restricted for these purposes. Some specific examples of restricted fund balance are:

1. Reserve for Debt Service: Funds are placed in this Reserve at the time debt is issued. The provisions governing the Reserve, if established, are in the Bond Indenture and the Reserve itself is typically controlled by the Trustee.
  2. Park In Lieu: Per CCMC 15.06.305 and California Government Code Section 664777 (The 1975 “Quimby Act”), a dedication of land or payment of fees for park or recreational purposes in conjunction with residential development is required. The fees collected can only be used for specific park or recreation purposes as outlined in CCMC 15.06.305 through 15.06.330.
- C. Committed fund balance: That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the government’s highest level of decision making authority, and remain binding unless removed in the same manner. The City considers a resolution to constitute a formal action for the purposes of establishing committed fund balance. The action to constrain resources must occur within the fiscal reporting period; however, the amount can be determined subsequently. City Council imposed Commitments are as follows:
1. Contingency Reserve: The Contingency Reserve shall have a target balance of thirty percent (30%) of General Fund “Operating Budget” as originally adopted. Operating Budget for this purpose shall include current expenditure appropriations and shall exclude Capital Improvement Projects and Transfers Out. Appropriation and/or access to these funds are reserved for emergency situations only. The parameters by which the Contingency Reserve could be accessed would include the following circumstances:
    - a. A catastrophic loss of critical infrastructure requiring an expenditure of greater than or equal to five percent (5%) of the General Fund, Operating Budget, as defined above.
    - b. A State or Federally declared state of emergency where the City response or related City loss is greater than or equal to five percent (5%) of the General Fund, Operating Budget.
    - c. Any settlement arising from a claim or judgment where the loss exceeds the City’s insured policy coverage by an amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.
    - d. Deviation from budgeted revenue projections in the top three General Fund revenue categories, namely, Sales Taxes, Utility Users’ Taxes and Business Taxes in a cumulative amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.
    - e. Any action by another government that eliminates or shifts revenues from the City amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget.
    - f. Inability of the City to meet its debt service obligations in any given year.

- g. Any combination of factors 1) a.-f. amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget in any one fiscal year.

Use of the Contingency Reserve must be approved by the City Council. Should the Contingency Reserve commitment be used, the City Manager shall present a plan to City Council to replenish the reserve within five years.

2. Facilities Planning Reserve: The Facilities Planning Reserve has been established to offset the cost of replacement or major refurbishment to critical City facilities such as, but not limited to, the City Hall building and Police Department buildings, Fire Stations, and other Facility Improvement Projects. Use of this Reserve must be approved by City Council. This Reserve shall be funded by allocations of General Fund surplus revenues, as defined later in this policy, or by specific City Council allocations. The eligible uses of this reserve include the cash funding of public facility improvements or the servicing of related debt.
3. Recreational Facilities: City Council Policy 5003 requires ten percent (10%) of gross annual revenues derived from specified recreational classes and rentals to be set aside for the refurbishment of certain recreational facilities, fee-based activity programs and equipment used in connection with fee-based recreation classes.
4. Public Safety Equipment Replacement Reserve: The Public Safety Equipment Replacement Reserve has been established to secure funding for critical safety related equipment such as: personal protective equipment for police and fire, emergency medical equipment, fire suppression equipment, hazardous materials equipment, extrication equipment, body-worn cameras, in-car cameras/arbitrator system, unmanned aerial vehicle, equipment to secure perimeters, other non-lethal equipment, and litter baskets. Use of this Reserve must be approved by City Council. This Reserve shall be funded by allocations of General Fund surplus revenues, as defined later in this Policy, or by specific City Council allocations.

D. Assigned fund balance: That portion of a fund balance that includes amounts that are constrained by the City's intent to be used for specific purposes but that are not restricted or committed. This policy hereby delegates the authority to the City Manager or Chief Financial Officer to modify or create new assignments of fund balance. Constraints imposed on the use of assigned amounts may be changed by the City Manager or Chief Financial Officer. Appropriations of balances are subject to Council Policy 5001 concerning budget adoption and administration. Examples of assigned fund balance may include but are not limited to:

1. Reserves for Encumbrances: Purchase Orders and contracts executed by the City express an intent to purchase goods or services. Generally, such documents include a cancellation clause, where the City would then only be responsible to pay for goods received or services provided. The City recognizes the obligation to pay for these goods and services as a reservation of fund balance, but because the City can ultimately free itself of this obligation if necessary, it does not meet the requirements of the more restrictive fund balance categorizations.
2. Change in Fair Market Value of Investments: As dictated by GASB 31, the City

practice is necessary to ensure that the City's investment assets are shown at their true value as of the balance sheet. However, in a fluctuating interest rate environment, this practice records market value gains or losses which may never be actually realized. The City Manager or Chief Financial Officer may elect to reserve a portion of fund balance associated with an unrealized market value gain. However, it is impractical to assign a portion of fund balance associated with an unrealized market value loss.

When the City Manager or Chief Financial Officer authorizes a change in General Fund, Assigned Fund Balance, City Council shall be notified quarterly.

- E. Unassigned fund balance: The residual portion of available fund balance that is not otherwise restricted, committed or assigned.

#### **IX. GENERAL FUND SURPLUS:**

At the end of each fiscal year, the difference between General Fund revenues and expenditures results in either a surplus (adding to fund balance) or deficit (subtracting from fund balance). In the case of a surplus, the policy for allocation shall follow these priorities:

1. Full funding of the Contingency Reserve.
2. If the Contingency Reserve is fully funded, 10% of the remaining surplus amount, but no more than \$1,000,000, shall be placed in the Public Safety Equipment Replacement Reserve, 40% of the remaining surplus amount shall be placed in the Facilities Planning Reserve, and the remainder shall revert to Unassigned fund balance.

The City Manager may recommend a different allocation for approval by the City Council.

#### **X. PROPRIETARY FUND RESERVES (NET WORKING CAPITAL):**

In the case of Proprietary Funds (Enterprise and Internal Service Funds), Generally Accepted Accounting Principles ("GAAP") does not permit the reporting of reserves on the face of City financial statements. However, this does not preclude the City from setting policies to accumulate financial resources for prudent financial management of its proprietary fund operations. Since proprietary funds may include both long-term capital assets and long-term liabilities, the most comparable measure of liquid financial resources that is similar to fund balance in proprietary funds is net working capital which is the difference between current assets and current liabilities. For all further references to reserves in Proprietary Funds, Net Working Capital is the intended meaning.

##### **A. Refuse Disposal Fund**

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset

cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is twenty-five percent (25%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 3 months with zero income or 12 months at a twenty-five percent (25%) loss rate. The City Council must approve the use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the fleet or transfer station occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to refuse disposal.

#### B. Municipal Bus Lines Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a fare increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in fare adjustments. It is not intended to offset ongoing, long-term cost of operations changes. The target level of this reserve is twenty-five percent (25%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 3 months with zero income or 12 months at a twenty-five percent (25%) loss rate. The City Council must approve the use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future fare adjustments, while extended reserve shortfalls would be recovered from future fare increases. Should catastrophic losses to the fleet or transportation building occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to public transportation.

#### C. Sewer Enterprise Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is fifty percent (50%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 6 months with zero income or 24 months at a twenty-five percent (25%) loss rate. The City Council must approve use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to sewer service.

2. Infrastructure Replacement Funding Policy: This funding policy is intended to be a temporary repository for cash flows associated with the funding of infrastructure replacement projects provided by the Sewer Master Plan. The contribution rate is intended to level-amortize the cost of infrastructure replacement projects over a long period of time. The annual funding rate of the Sewer Master Plan is targeted at an amount that, when combined with prior or future year contributions, is sufficient to provide for the eventual replacement of assets as scheduled in the plan. This contribution policy should be updated periodically based on the most current Wastewater Master Plan. There are no minimum or maximum balances contemplated by this funding policy. However, the contributions level should be reviewed periodically or as major updates to the Wastewater Master Plan occur. Annual funding is contingent on many factors and may ultimately involve a combined strategy of cash funding and debt issuance with the intent to normalize the burden on Sewer customer rates.

#### D. Internal Service Funds

##### Background.

Internal Service Funds are used to centrally manage and account for specific program activity in a centralized cost center. Their revenue generally comes from internal charges to departmental operating budgets rather than direct appropriations. They have several functions.

They work well in normalizing departmental budgeting for programs that have life-cycles greater than one year; thereby facilitating level budgeting for expenditures that will, by their nature, be erratic from year to year. This also facilitates easier identification of long term trends.

They act as a strategic savings plan for long-term assets and liabilities.

From an analytical standpoint, they enable appropriate distribution of city-wide costs to individual departments, thereby more readily establishing true costs of various operations.

Since departmental charges to the internal service fund duplicate the ultimate expenditure from the internal service fund, they are eliminated when consolidating entity-wide totals.

The measurement criteria, cash flow patterns, funding horizon and acceptable funding levels are unique to each program being funded. Policy regarding target balance and/or contribution policy, gain/loss amortization assumption, source data, and governance for each of the City's Internal Service Funds is set forth as follows:

1. For all Internal Service Funds: The Chief Financial Officer may transfer part or all of any unencumbered fund balance between the Internal Service Funds provided that the withdrawal of funds from the transferred fund would not cause insufficient reserve levels or insufficient resources to carry out its intended purpose. This action is appropriate when the decline in cash balance in any fund is precipitated by an off-trend non-recurring event. The Chief Financial Officer will make such recommendations as part of the annual budget adoption or

through separate Council action.

2. Equipment Maintenance Fund and Equipment Replacement Fund: The Equipment Maintenance and Replacement Funds receive operating money from the Departments to provide equipment maintenance and to fund the regular replacement of major pieces of equipment (mostly vehicles) at their economic obsolescence.

- a. Equipment Maintenance Fund: The Equipment Maintenance Fund acts solely as a cost allocation center (vs. a pre-funding center) and is funded on a pay-as-you-go basis by departmental maintenance charges by vehicle type and usage requirement. Because of this limited function, the target year-end balance is zero.

Contribution rates (departmental charges) are set to include the direct costs associated with maintaining the City vehicle fleet, including fleet maintenance employee salary and benefits, operating expenses, administrative overhead and maintenance related capital outlay. Maintenance facility improvements and replacement costs are to be provided outside of this cost unit.

Because of the limited purpose of this fund, a gain/loss assumption is not needed.

Source data is ongoing city fleet inventory and maintenance cost information. Governance is achieved through annual management adjustment of contribution rates on the basis of maintenance cost by vehicle and distribution of costs based on fleet use by department/division.

- b. Equipment Replacement Fund: Operating Departments are charged annual amounts sufficient to accumulate funds for the replacement of vehicles, communications equipment, technology equipment and other equipment replacement determined appropriate by the Chief Financial Officer. The City Manager recommends annual rate adjustments as part of the budget preparation process. These adjustments are based on pricing, future replacement schedules and other variables.

The age and needs of the equipment inventory vary from year to year. Therefore, the year-end fund balance will fluctuate in direct correlation to accumulated depreciation. In general, it will increase in the years preceding the scheduled replacement of relatively large percentage of the equipment, on a dollar value basis. However, rising equipment costs, dissimilar future needs, replacing equipment faster than their expected life or maintaining equipment longer than their expected life all contribute to variation from the projected schedule.

In light of the above, the target funding level is not established in terms of a flat dollar figure or even a percentage of the overall value of the equipment inventory. It is established at fifty percent (50%) of the current accumulated depreciation value of the equipment inventory, calculated on a replacement value basis. This will be reconciled annually as part of the year-end close out process by the Finance Department. If departmental replacement

charges for equipment prove to be excessive or insufficient with regard to this target funding level, new rates established during the next budget cycle will be adjusted with a view toward bringing the balance back to the target level over a three-year period.

### 3. Self-Insurance Fund

#### Background

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.

#### Policy & Practice

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 from one-time fluctuations. 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 maintain minimum reserves equal to 60% of the five-year average of total Self-Insurance Fund costs, with a maximum of 100%.

To lessen the impact of short-term annual rate change fluctuation, City management may implement one-time fund transfers (rather than department rate increases) when funding shortfalls appear to be due to unusually sharp and non-recurring factors. Excess reserves in other areas may be transferred to the internal service fund in these instances but such transfers should not exceed the funding necessary to reach the one hundred percent (100%) reserve level defined above.

### 4. Compensated Absences

#### Fund Background

The primary purpose of flex leave, vacation leave and sick leave is to provide compensated time off as appropriate and approved. However, under certain circumstances, typically at separation from service, some employees have the option of receiving cash-out payments for some accumulated leave balances. The Compensated Absences Fund is utilized primarily as a budget smoothing technique for any such leave bank liquidations. The primary purpose of the Compensated Absences Fund is to maintain a balance sufficient to facilitate this smoothing.

#### Policy and Practice

The contribution rate will be set to cover estimated annual cash flows based on a three-year trailing average.



The minimum cash reserve should not fall below that three-year average. The maximum cash reserve should not exceed fifty percent (50%) of the long term liability. The target cash reserve shall be the median difference between the minimum and maximum figures.

Each department will make contributions to the Compensated Absences Fund through its operating budget as a specified percentage of salary. The Chief Financial Officer will review and recommend adjustments to the percentage of salary required during the annual budget development process. This percentage will be set so as to maintain the reserve within the parameters established above.

## 5. Post Retirement Funding Policies

### a. Pension Funding:

- i) California Public Employees Retirement System (CalPERS): The City's principal Defined Benefit Pension program is provided through contract with CalPERS. The City's contributions to the plan include a fixed employer paid member contribution and an actuarially determined employer contribution that fluctuates each year based on an annual actuarial plan valuation. This variable rate employer contribution includes the normal cost of providing the contracted benefits plus or minus an amortization of plan changes and net actuarial gains and losses since the last valuation period.

It is the City's policy to make contributions to the plan equaling at least one hundred percent (100%) of the actuarially required contribution (annual pension cost). Because the City pays the entire actuarially required contribution each year, by definition, its net pension obligation at the end of each year is \$0. Any unfunded actuarial liability (UAL) is amortized and paid in accordance with the actuary's funding recommendations. The City will strive to maintain its UAL within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual CalPERS contribution should the UAL status fall below acceptable actuarial standards.

### b. Other Post-Employment Benefits (OPEB Funding):

#### Background.

The City's OPEB funding obligations consists of two retiree medical plans.

#### New Plan. Effective July 1, 2011, the City and its employee associations

agreed to major changes to the Post Employment Healthcare Plan. New employees participate in a program that requires certain defined employee and employer contributions while the employee is in active service. However, once the contributions have been made to the employee's account, the City has transferred a substantial portion of the

funding risk to the employee.

Old Plan. Eligible employees who retired prior to the “New Plan” and active employees were eligible to continue to receive post-retirement medical benefits (a defined benefit plan). The cost was divided among the City, current employees and certain retirees. In the past, this program was largely funded on a pay-as-you-go basis, so there was a significant unfunded liability. Recognizing this problem, the City began contributing to this obligation in 2010. In 2012, these assets were placed in a pre-funding trust. The City’s intention is to amortize the remaining unfunded liability within 25 years.

Policy & Practice.

New Plan. Consistent with agreements between the City and employee associations, the new defined contribution plan will be one hundred percent (100%) funded, on an ongoing basis, as part of the annual budget process. Funds to cover this expenditure will be contained within the salary section of each department’s annual operating budget.

Old Plan. The City’s policy is to prefund the explicit (cash subsidy) portion of the Actuarial Accrued Liability (AAL) of the remnants of the old plan over a 25- year amortization period, or less. This amount will be based on the Annual Required Contribution (ARC) determined by a biennial actuarial review; subject to review and analysis by the City. The City will strive to maintain a funded status that will be within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual OPEB contribution should the funded status fall below acceptable actuarial standards. The City Council shall also consider increasing the annual OPEB contribution when possible to reduce the amortization period.

## **XI. GRANT ADMINISTRATION POLICY**

### **A. Grant Application and Responsibility**

Individual departments are encouraged to investigate sources of funding relevant to their respective departmental activities.

The individual department applying for a grant or receiving a restricted donation shall generally be considered the Program Administrator of the grant. The Budget and Accounting Divisions in the Finance Department may assist in the financial administration and reporting of the grant but the Program Administrator is ultimately responsible for meeting all terms and conditions of the grant, insuring that only allowable costs are charged to the grant program and is responsible for adhering to City budgeting and fiscal procedures. Individual Departments and Program Administrators are not authorized to execute grant contracts. Grant contracts should be reviewed by the City Attorney’s office and executed by the City Manager and/or City Council.

### **B. Grant Acceptance & Appropriation by City Council**

**CITY OF EL SEGUNDO  
FINANCIAL POLICIES/PROCEDURES**

**General Fund Reserve:** Establish target General Fund Unassigned Fund Balance at a minimum of 25% of General Fund Expenditures each fiscal year. Establish a minimum General CIP reserve balance of 5% of General Fund Expenditures each fiscal year. The 5% is a transfer out from the General Fund to the CIP Fund (Fund 301).

**Economic Uncertainty Fund Reserve:** Maintain the Economic Uncertainty Fund at \$2.0 million up to a maximum of \$2 million to mitigate current and future risks due to fluctuations in the City's core tax revenues.

**Capitalization of Fixed Assets:** Capitalize fixed asset with a value of \$5,000 or more and with an estimated life of **over one year**.

**Balanced Budget:** Is defined as a budget in which estimated revenues equal or exceed expenditures; in some instances, the City considers the budget is balanced when using available reserves to make up the gap between revenues and expenditures. Council policy is to adopt a balanced budget each year.

**Revenue Estimates:** Maintain a conservative approach in projecting revenues.

**Budgetary Control:** The budgetary level of control is held at the department level.

**Budget Transfers:** Budget transfer requests between accounts or object codes shall be limited; meaning, departments may overspend on one account without processing a budget request transfer form as long as that overage is covered by savings from another account within the department. Budget transfers within a division required the Director of Finance's approval. Budget transfers between divisions require City Manager's approval. Budget transfers between funds require Council approval. Additional appropriations requests after the budget is adopted require Council approval.

**Basis of Budgeting:** The City uses the modified accrual basis in budgeting government funds. This means that obligations of the City, including outstanding purchase orders, are budgeted as expenses and revenues are recognized when they are both measurable and available to fund current expenditures. Included in the budget for governmental funds are estimated payouts during the budget year for compensation absences in excess of maximum accrued leave allowable. For the enterprise funds, the City uses the full accrual method. This means expenses are recognized when incurred and revenues are recognized when due the City.

**Basis of Accounting:** The basis of accounting is the same as the basis of budgeting.

**Budgetary Data:** Annual budgets are legally adopted for all funds on a basis consistent with generally accepted accounting principles.

**Debt Limit:** The City does not have general bonded debt.

**Purchasing:** Purchase orders ranging from \$25,000 - \$50,000 require City Manager's approval; above \$50,000 require formal bids to be approved by City Council.

**Encumbrance Carryovers:** Encumbered purchase orders with remaining balances at year-end may be carried over to the next fiscal year after review by the Purchasing Agent and approval by the Director of Finance. All carryover appropriations require Council approval.

**Contracts Review:** The Risk Manager should review contracts when procured through a negotiated/ award procedure at any given time during the fiscal year.

## Financial Policies of the City of Inglewood

- 1. The City of Inglewood will manage its financial assets in a sound and prudent manner, and maintain and further develop programs to ensure its ability to pay for city services to enhance economic opportunities and the quality of life of residents.**

Elected officials and city staff are representatives of the people of Inglewood and are expected to manage the City of Inglewood for the economic and social benefit of everyone. We have a fiduciary responsibility for the assets we manage on behalf of the people who are here today and those who come after us.

- 2. The City of Inglewood will maintain its financial records in accordance with generally accepted accounting principles (GAAP) and comply with all laws, regulations, contracts, grants and other legal requirements.**

This policy is self-explanatory. We sometimes hear stories of how public or private entities use “creative accounting” to paint a more positive picture than might really exist. Staff will always conduct the City’s financial affairs and maintain records in accordance with accounting principles generally accepted in the United States of America as established by the Government Accounting Standards Board. This process should help in maintaining accuracy and public confidence in the City’s financial reporting systems.

- 3. It is the policy of the City of Inglewood to fund current expenditures for operating budgets with current revenues. The City Administrator’s Budget Message shall explain any deviation from this policy.**

This policy requires that in any given fiscal year we do not budget recurring appropriations in excess of the revenue we expect to receive in the same year. This “pay as you go” approach mandates that any increase in expenditures, decreases in revenues, or combination of the two that would result in a budget imbalance will require cost cutting and/or revenue enhancement, rather than spending unappropriated surpluses or designated reserves to support ongoing operations. Cost cutting measures may include reductions in staff (either through eliminating vacant positions, attrition, hiring freezes, or actual lay-offs), or reductions in expenditures for materials, services, and supplies. Expenditure reductions may very well result in reduced service levels.

Revenue enhancement would generally be in the form of new or increased taxes and fees. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining policy-set reserve levels, and the remaining balances will be available for one-time carry-over expenditures, including capital improvement projects, or limited term expenditures.

Any apparent exception to this policy would be explained by the City Administrator with the proposed action that would bring this policy into apparent conflict. An example might be the State being late in some payment to the City, but the adopted State budget includes those late payments. In such circumstances, short term use of reserves would not be an actual violation of this policy.

- 4. It is the policy of the City of Inglewood to establish and maintain at least a reserve fund balance for the General Fund equal to 25% of the current year’s expenditure appropriations and adequate operating reserves for all other funds to be reviewed at least annually.**

Unforeseen developments and crises occur more often than not in any given budget year. Maintaining reserves is considered a prudent management practice and can be used for numerous unforeseen situations. Examples of potential uses and drawdowns include:

- Federal/State/County budget cuts;
- Local revenue shortfall due to major business closures or relocations;
- Increase in demand for a specific service;
- Legislative or judicial mandate to provide a new/or expanded service or programs;
- One-time City Council approved expenditure;
- Unexpected increase in inflation (CPI); and,
- Natural disaster (earthquake, flood, etc.)

In an effort to ensure the continuance of sound financial management of public resources, this policy of the City Council directs staff to maintain an unappropriated General Fund reserve amount equal to 25% of current year appropriations in a separate reserve fund account. If unforeseen circumstances occur which cause the reserves to drop below their prescribed levels, then staff will immediately present the City Council with various options for curing the deficiency (ies).

**5. The annual budget shall present a five year revenue and expenditure projection for the General Fund and other major funds of the City.**

A long-range financial perspective is essential to provide a more comprehensive and thorough overview of the City's long-term financial needs. Components of this plan include the use of an annual operating budget and a five-year financial forecast with revenue and expenditure projections. The approach will be supported by staff's use of historical data, current economic trends and identification of future financial events.

**6. The City will estimate revenues using an objective, analytical process; in the case of economic uncertainty, conservative projections will be utilized.**

Many General Fund revenues are based on volatile revenues that rise and fall with the strength of the economy. Examples include fee revenue from planning and building and safety permits; sales taxes; and Transient Occupancy Taxes (TOT) from hotel and motel rooms. In addition, even when economic growth is occurring, it can vary from just barely keeping up with inflation to a genuine economic boom. It is most fiscally prudent to budget these revenues conservatively, using the lower end of the expected range. All revenue projections will be carefully reviewed using historical data of actual city revenues and knowledge of local factors; regional economic forecasts; and state and national projections. Staff will balance these factors before making any projections.

**7. The City will endeavor to maintain a diversified and stable revenue base to minimize the effects of economic fluctuations on revenue generation.**

Among the most stable revenues are property taxes and utility user taxes, and these two revenues are both stronger in their contribution to our tax base than sales taxes. We are fortunate to have a diversified revenue base today, without a major reliance on any one employer. Economic development policies that encourage this type of diversified revenue base are in the best interests of our fiscal health. With the NFL choosing the Hollywood Park site for the return of the Rams to Los Angeles, Inglewood will stand to gain approximately \$1.234 billion in annual revenues over 25 years.

**8. Development process costs and related administrative expenses will be totally offset by development fees.**

New development is part of the economic diversification that is desirable in the City. However, new development has major costs associated with it, not least of which is the processing of the permits to ensure compliance with State and local laws and ordinances. It is unfair for existing residents and businesses to pay these costs. State law provides for full cost recovery of fees for services by a simple vote of the City Council. The City has a policy of full cost recovery from fees for new development costs.

**9. Fee supported services shall be reviewed and fees adjusted to reduce public subsidies and move toward full cost recovery where deemed appropriate. This shall be done in conjunction with the annual budget process.**

In addition to development fees, the City offers a wide variety of other services which could be totally offset by fees, including library costs, park and recreation costs, and special programs for seniors and others. However, very few jurisdictions charge full costs for these services. Nevertheless, some fees must be charged for most of these services, and those fees should be reviewed annually as part of the annual budget process and recommendations for any changes could be made to council at the same time services provided by the budget are considered.

In addition to these fees, the City charges a wide variety of other fees, from police department licensing and permitting, to copies of documents. In general, these fees should have full cost recovery, and should be reviewed annually to ensure that all costs are being considered.

**10. The City supports a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs and assumptions. Major capital projects will be reviewed and included in the update to the City's General Plan. Annual budgets shall identify all new and on-going capital improvement projects.**

The City is currently updating its General Plan and all the elements of it, including a long range fiscal plan for the city. Many of the major infrastructure projects of the City have important capital needs and deferred maintenance requirements. This includes the City's water and sewer systems, and the need for major improvements to the storm water system. We also have major street repair requirements and related street improvements of sidewalks, signals and trees.

costs and start-up costs. Site costs for land already owned by the City do not need to be reported. Projected operating costs through any stabilization period, as well as projected future operating and maintenance costs, are to be identified. If the project has a limited economic life, the fiscal impact information should discuss proposed end of life actions and costs. The method for funding the projected operating costs is to be included in any funding description.

## **7. Adequate General Fund Emergency And Operating Reserves Will Be Maintained**

Background - Maintaining adequate emergency and operating reserves is a basic component of a financially strong City. Adequate reserves help sustain City operations when adverse or unexpected circumstances impact the City. There are two basic types of reserves for emergencies and operations. The first type, an emergency reserve, is to be used only for rare catastrophic events and is not to be used to address economic problems such as revenue shortfalls. The second type, an operating reserve, is intended to handle general short-term issues or opportunities, inclusive of expected short-term operating revenue shortfalls or higher than anticipated expenses.

### Policy

- a. The City will maintain a General Fund Emergency Reserve at a minimum of 8 percent of General Fund operating expenditures (including transfers) and a target level of 10 percent.
- b. The City will maintain a General Fund Operating Reserve at a minimum of 2 percent of General Fund operating expenditures with a normal maximum of 7 percent.
- c. The City will seek to achieve and maintain overall General Fund reserves (including all committed, assigned and unassigned reserves and excludes restricted and unspendable reserves) at no less than two months (or 16.7 percent) of General Fund expenditures, including transfers.
- d. If emergency or operating reserves are drawn down below the minimums, a plan will be developed and implemented to replenish them, generally from future surpluses. Replenishing reserves will be a priority use of one-time resources.
- e. The City may establish and maintain special purpose operating reserves (in addition to the operating reserve described above). Special purpose operating reserves are intended to be used for specific revenue and expense variations and will generally be formulaic and automatic in nature in terms of when the reserves will be added and when they will be used.
- f. A CalPERS stabilization fund is established and maintained to reduce or eliminate year-to-year variances in costs due solely to short-term deviations in CalPERS investment returns. Increases or decreases to this reserve will be included in the proposed budget, based on a formula developed and implemented by the Financial Management Department.
- g. The City may establish and maintain other reserves.

## **8. Adequate Reserves Will Be Established For All City Funds**

Background - Financial reserves strengthen the City's financial status and provide valuable flexibility for unexpected events for City funds. Every fund of the City represents a stand-alone financial operation and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed, if any, should be based on the financial and operating characteristics of each fund.

Policy - The Financial Management Department, in concert with any relevant operating departments, shall develop and present to City Council recommended reserve policies for each City fund, which will be adopted, as modified, by the City Council

## **9. Revenues Will Be Projected Using A Methodology That Is Reasonably Conservative**

Background - Revenue projections are critical to budget decisions, particularly a budget that is intended to be structurally balanced. Unfortunately many of the City's key revenues are subject to material variation depending on the economy. No revenue projection is likely to be "accurate" when the economy is changing direction or moving quickly. As a result, it is important to have a consistent approach to projecting revenues and for decision-makers to understand the basis used to project the resources available for the budget. Revenue should be projected in a way not likely to lead to a revenue shortfall and not be so conservative that the projection is always substantially under revenues.

Policy - Revenue projections are to be objectively prepared using a conservative approach. That approach should result in overall budgeted revenues for a fund being set at a level such that it is reasonably unlikely that actual revenues will be lower than budgeted.

## **10. Stable Revenue Sources Will Be Used To Fund Operations, To The Extent Practical**

Background - Operations require stable revenue sources from year-to-year to minimize the necessity to cut services when key revenues vary in the wrong direction. Revenue sources that have significant variability from year to year, or an unpredictable basis, are not completely suitable to fund operations and often cannot be projected with reasonable accuracy. Two approaches to addressing such a situation are to 1) designate the entire revenue sources as one-time or 2) divide it into stable (operations) and unstable (one-time) components.

Policy - The City will take steps to utilize only the stable portion of revenue sources for ongoing operations.

- a. Any revenue that has a highly variable component and is used to fund ongoing operations may have only a portion of it, or none of it, budgeted for operations. The remainder (unstable portion) may be budgeted in the year of expected receipt or in the following year for capital or other one-time purposes, including increasing reserves. If budgeted in the year of receipt, it should not normally be budgeted for expenditures that require commitments in advance of receipt. This policy helps stabilize operating revenues and can provide a fairly regular source of funds for one-time purposes. Consideration of such a practice for individual revenue sources will be based on a recommendation from the City Manager and subsequent approval by City Council.

creation and execution of the City's spending plan. The Policies also reference other adopted City policies such as the Budget Policies, Debt Management and Disclosure Policy, and Unfunded Pension Liability Policy.

Civic engagement is a key element of our budget process. In February 2024, the City held a Community Priorities Budget meeting. Staff provided attendees with an overview of the current fiscal year budget as well as with an explanation of the budget process for next fiscal year. Following this presentation, each Department Head provided a brief introduction outlining their respective department's functions within the City. Community members actively participated by submitting questions and comments and Department Heads responded during the interactive discussion session. In addition to taking input during the meeting, the City's Budget Team email address ([budget@manhattanbeach.gov](mailto:budget@manhattanbeach.gov)) is also available throughout the year for budget feedback and questions.

The City also conducted outreach via an online Budget Survey resulting in 18 responses. The survey questions focused on funding priorities for the General Fund as well as areas requiring most attention from elected officials and City administration. The top priorities for the respondents were Public Safety (Police and Fire) Services (56%) and Maintenance of Streets and Parking Lots (56%). When asked about infrastructure priorities, most respondents rated Sewer Infrastructure as having the highest importance over the other options of Water Infrastructure, Outdoor Recreation Facilities and Parks, City Facilities, Storm Drain Infrastructure and Parking facilities.

After gathering community input, staff began preparing the Proposed Budget by making projections for City revenues and having internal reviews of all expenditure line items. Staff also prepares budget proposals for program changes, one-time projects, equipment, new technologies, and staffing changes. These budget proposals are reviewed in conjunction with community priorities and funding availability, which forms a basis for decisions on which investments are included in next year's budget.

After the initial presentation of the Proposed Budget at a regular City Council meeting, the City usually has at least one special Budget Study Session meeting for detailed discussion and analysis, as well as to receive additional community feedback. The entire process culminates with the Budget and Capital Improvements Plan adoption in June.

## **FISCAL OUTLOOK**

The City's main General Fund revenue source, Property Tax, continues to grow with residential and commercial property values. Although housing prices surged during the pandemic due to low inventory, sales activity has slowed due to continued high mortgage interest rates.

As a beach community and regional destination for fine dining and retail shopping, other key General Fund revenues of Sales Tax, Transient Occupancy Tax, and Business License Tax are dependent upon the local economy and travel/tourism industry. The City's biggest Sales Tax sector, general consumer goods, has experienced growth in specialty stores, electronics, shoes and apparel. Sales Tax from restaurants continues to be strong for both casual and fine dining. High occupancy rates at local hotels, motels and short-term rentals is driving higher Transient Occupancy Tax (TOT) indicating strong demand in leisure and business travel, while regional special events continue to attract visitors. All of these economic sectors contributed to increases in Business License Tax, which is calculated on gross receipts.

With our conservative approach to budgeting, history of prudent planning, and effective cost controls, the City emerged from the pandemic in a strong financial position. The City's General Fund continues to maintain healthy reserves, currently at 20% of operating expenditures, or about \$19.5 million, which is greater than the GFOA recommendation of no less than two months (17%) of regular General Fund operating revenues or expenditures. The City Council has also set aside \$4.0 million as an "Economic Uncertainty" reserve. In addition to these designated reserves, the General Fund's Unreserved Fund Balance is estimated at nearly \$5.6 million at the end of fiscal year 2024-2025, which may be drawn upon for one-time projects and initiatives or, if necessary, transfers to other funds.

In early 2024, property owners approved a Proposition 218 ballot initiative for storm drain assessments, thereby eliminating the need for continued General Fund subsidies to the Storm Drain Fund. Having a sufficient, dedicated funding source for this enterprise operation relieves significant pressure on the General Fund and supports fiscal sustainability in the long-term.

## **SERVICE DELIVERY INVESTMENTS**

As a City, we rely upon our employees to provide exemplary municipal services. Just as any other business adjusts staffing to meet demands, we too must constantly evaluate and adapt to changing operational needs and service requests from the community, as well as provide adequate support staffing to fulfill our mission of satisfying community priorities.

With the adoption of the FY 2023-2024 Budget, and during the Mid-Year update, the City focused on right-sizing staffing levels with operational needs that resulted in the addition of new full-time positions. Significant investments were made in public safety as well as in





### *ANNUAL AUDIT*

An independent public accounting firm will perform an annual audit and its opinions will be included in the Annual Comprehensive Financial Report.

The independent audit firm will be reviewed and selected at least once every five years. The contract will be for a period of no more than five years. The Finance Subcommittee, City Manager and 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.

An Annual Comprehensive Financial Report (ACFR) shall be prepared within six months of the close of the previous fiscal year. It will be reviewed with the Finance Subcommittee, and presented to the City Council and community at a public meeting no later than February 1 of the following year. At the end of each fiscal year, and with the presentation of the Annual Comprehensive Financial Report to City Council, the Finance Director may recommend the transfer of additional General Fund surplus funds to the Section 115 Trust for future pension liability payments.

It is the City's goal to maintain accounting records, processes and procedures in such a manner as to receive an unmodified audit opinion and to maintain a Certificate of Achievement for Excellence in Financial Reporting from the GFOA.

## **3 - FUND BALANCE POLICIES**

The City utilizes a variety of accounting funds for recording revenues and expenditures. Fund balance is defined as the difference between the assets and liabilities within a fund. At each fiscal year-end, budgeted/appropriated expenditure authority lapses with the exception of capital project spending, and operating expenses that have been incurred but not paid (encumbered). The remaining dollars left in each fund that are Unassigned constitute available funds of the City. The Unassigned fund balance shall include the City's Financial Policy components. The City Council authorizes the City Manager or Director of Finance to make assignment of funds. Where City Council has not established a formal policy, the Governmental Accounting Standards Board Statement 54 will be operative.

### *GENERAL FUND*

The General Fund shall maintain a Policy Reserve in an amount equal to at least 20 percent of the annual General Fund core expenditure budget, excluding one-time capital purchases. These funds are designed to be used in the event of significant financial emergency.

City Council may, at its discretion, set aside additional policy reserve funds above the 20% minimum. The City currently has funds set aside in an Economic Uncertainty reserve to be used at City Council's discretion.

Additional amounts may be allocated for specific purposes, with any residual balance from these commitments shall be returned to the General Fund.

### *ENTERPRISE FUNDS*

The City's Enterprise Funds (Water, Storm Drain, Sewer, Parking, County Parking Lots, and Pier) will maintain reserves equal to four months or 33% of operating expenses. If reserves in any Enterprise Fund are anticipated to be less than this policy, then it shall be noted in the City's Budget document and a plan will be developed by Finance staff to address the reserve level.

### *FLEET MANAGEMENT FUND*

Using the Fleet Management Fund, the City will annually budget sufficient funds to provide for the orderly maintenance, repair and replacement of the City's vehicles. This Fund is supported by charges to user departments, which are adjusted annually, based on the department's proportionate share of estimated fleet management expenses. Sufficient working capital will be maintained in the fund to provide for the scheduled replacement of fleet vehicles at the end of their useful lives.

### *INFORMATION TECHNOLOGY FUND*

Using the Information Technology Fund, the City will annually budget sufficient funds to provide for the orderly maintenance, repair and replacement of the City's technology infrastructure. This Fund is supported by charges to user departments, which are adjusted annually, based on departments' proportionate share of estimated expenses. Such share may be determined based upon the departments' number of devices supported by the Information Technology Department. Sufficient reserves will be maintained in the Fund for department operations and equipment replacements as appropriate.

### *INSURANCE RESERVE FUND*

The City maintains a self-insurance fund for property, liability, and workers' compensation expenses. This fund pays insurance premiums, benefit and settlement payments up to the Self-Insured Retention (SIR), and administrative and operating expenses. The Insurance Reserve Fund is supported by charges to other City funds for the services it provides. These annual charges for service shall be established to approximately equal the annual expenses of the fund, plus any additional charges to maintain reserves.



## **RESERVE POLICY**

### ***Purpose***

To establish City Council policy for the administration of Reserves defined as fund balances in governmental funds and net working capital in proprietary funds.

This Policy is organized in the following sections:

### ***Background***

Prudent financial management dictates that some portion of the funds available to the City be reserved for future use.

As a general budget principle concerning the use of reserves, the City Council decides whether to appropriate funds from Reserve accounts. Even though a project or other expenditure qualifies as a proper use of Reserves, the Council may decide that it is more beneficial to use current year operating revenues or bond proceeds instead, thereby retaining the Reserve funds for future use. Reserve funds will not be spent for any function other than the specific purpose of the Reserve account from which they are drawn without specific direction in the annual budget or by a separate City Council action. Information regarding Annual Budget Adoption and Administration is contained in City Council Policy F-3.

### **GOVERNMENTAL FUNDS AND FUND BALANCE DEFINED**

Governmental Funds including the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds have a short-term or current flow of financial resources, measurement focus, and basis of accounting, and therefore exclude long-term assets and long-term liabilities. The term Fund Balance, used to describe the resources that accumulate in these funds, is the difference between the fund assets and fund liabilities of these funds. Fund Balance is similar to the measure of net working capital that is used in private sector accounting. By definition, both Fund Balance and Net Working Capital exclude long-term assets and long-term liabilities.

### **PROPRIETARY FUNDS AND NET WORKING CAPITAL DEFINED**

Proprietary Funds including Enterprise Funds and Internal Service Funds have a long-term or economic resources measurement focus and basis of accounting, and therefore include long-term assets and liabilities. This basis of accounting is very similar to that used in private sector. However, instead of Retained Earnings, the term Net Assets is used to describe the difference between fund assets and fund liabilities. Since Net Assets include both long-term assets and liabilities, the most comparable measure of proprietary fund financial resources to governmental Fund Balance is Net Working Capital, which is the difference between current assets and current liabilities. Net Working Capital, like Fund Balance, excludes long-term assets and long-term liabilities.

## GOVERNMENTAL FUND RESERVES (FUND BALANCE)

For Governmental Funds, the Governmental Accounting Standards Board ("GASB") Statement No. 54 defines five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and are therefore "Spendable." The classifications also are intended to identify the extent to which fund balance is constrained by special restrictions, if any. Applicable only to governmental funds, the five classifications of fund balance are as follows:

<u>CLASSIFICATIONS</u>	<u>NATURE OF RESTRICTION</u>
Non-spendable	Cannot be readily converted to cash
Restricted	Externally imposed restrictions
Committed	City Council imposed commitment
Assigned	City Manager assigned purpose/intent
Unassigned	Residual balance not otherwise restricted

A. Non-Spendable Fund Balance: That portion of fund balance that includes amounts that are either (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. Examples of Non-spendable fund balance include:

1. Reserve for Inventories: The value of inventories purchased by the City but not yet issued to the operating Departments is reflected in this account.
2. Reserve for Long Term Receivables and Advances: This Reserve is used to identify and segregate that portion of the City's financial assets which are not due to be received for an extended period, so are not available for appropriation during the budget year.
3. Reserve for Prepaid Assets: This Reserve represents resources that have been paid to another entity in advance of the accounting period in which the resource is deducted from fund balance. A common example is an insurance premium, which is typically payable in advance of the coverage period.

Although prepaid assets have yet to be deducted from fund balance, they are no longer available for appropriation.

4. Reserve for Permanent Endowment – Bay Dredging: The endowment specifies that the principal amount will not be depleted and represents the asset amounts to be held in the Bay Dredging Fund.

5. Reserve for Permanent Endowment – Ackerman Fund: The endowment specifies that the principal amount will not be depleted and represents the asset amount to be held in the Ackerman Fund.
- B. Restricted Fund Balance: The portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Examples of restricted fund balance are:
1. Reserve for Debt Service: Funds are placed in this Reserve at the time debt is issued. The provisions governing the Reserve, if established, are in the Bond Indenture and the Reserve itself is typically controlled by the Trustee.
  2. Affordable Housing: A principal provision of the Newport Beach Housing Element requires developers to provide housing units for lower income households, the number of which is to be negotiated for each development project. In lieu of constructing affordable housing, developers have paid into this reserve which is used at the City Council's discretion to provide alternate methods for the delivery of affordable housing for lower income households.
  3. Park In Lieu: Per Newport Beach Municipal Code (NBMC) Chapter 19.52 and California Government Code Section 664777 (The 1975 "Quimby Act"), a dedication of land or payment of fees for park or recreational purposes in conjunction with residential development is required. The fees collected can only be used for specific park or recreation purposes as outlined in NBMC Sections 19.52.030 and 19.52.070.
  4. Upper Newport Bay Restoration Reserve: This Reserve is the repository for funds mandated by SB573, as well as special fees charged to permit holders as an alternative to meeting certain specified mitigation criteria. In addition to the mitigation fees, ten percent (10%) of Beacon Bay lease revenue is placed in this Reserve. Funds in the Reserve are restricted for Upper Newport Bay restoration projects.
  5. Permanent Endowment for Bay Dredging: The endowment also specifies that the interest earnings on the principal amount can only be used for dredging projects in the Newport Bay.
  6. Permanent Endowment for Ackerman Fund: The endowment also specifies that the interest earnings on the principal amount can only be used for scholarships provided by the City and high-tech library equipment.

7. Oceanfront Encroachment Reserve: In the early 1990's, it was discovered by survey that improvements to several ocean front parcels were encroaching onto the public beach. The encroachment was relatively minor. The negotiated solution was for the property owners to pay a permit fee each year to the City. Revenue thus generated may only be used for ocean front restoration projects and incidental costs of improvements and maintenance to enhance public access and use of ocean beaches as approved by the City Council. This Reserve is the repository for those funds. Appendix C of NBMC Title 21 (Local Coastal Program Implementation Plan) contains additional background and details about the encroachment issue. The external restriction on this balance is imposed by the Local Coastal Program (LCP).

C. Committed Fund Balance: That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, and remain binding unless removed in the same manner. The City considers a resolution to constitute a formal action for the purposes of establishing committed fund balance. The action to constrain resources must occur within the fiscal reporting period; however, the amount can be determined subsequently. City Council imposed Commitments are as follows:

1. Facilities Financial Planning (FFP) Program: In conjunction with the City's Facilities Financial Plan, a sinking fund has been established to amortize the cost of critical City facilities such as, but not limited to, the Civic Center, Police Department buildings, Fire Stations, Library Branches, and other Facility Improvement Projects.

The Facilities Financial Planning Program establishes a level charge to the General Fund that will perpetually replenish the cash flows necessary to finance the construction of critical City facilities. This plan will be updated annually as part of the budget process, or as conditions change. Specific requirements for annual funding and minimum reserve balance for the FFP Program can be found in City Council Policy F-28.

The eligible uses of this reserve include the cash funding of public facility improvements or the servicing of related debt.

2. Off Street Parking: Per NBMC Section 12.44.025 the City Council may direct revenues into the Off-Street Parking Facilities Fund for purposes of the acquisition, development, and improvement of off street parking facilities, and for any expenditures necessary or convenient to accomplish such purposes.
3. In Lieu Parking: Per NBMC Section 12.44.125 the City requires commercial businesses to provide adequate off-street parking or where this is not possible, businesses are afforded the opportunity to pay an annual fee and use parking spaces in a municipal lot, providing such a lot is located within specified proximity to the business. These funds can only be used to provide additional parking.

4. Neighborhood Enhancement – A: Funds previously accumulated to Neighborhood Enhancement Area "A" pursuant to a prior version of NBMC Section 12.44.027 shall continue to be used only for the purpose of enhancing and supplementing services to the West Newport area. Both the nature of the supplemental services and the definition of the area served are set forth in NBMC Section 12.44.027.
  5. Neighborhood Enhancement – B: Funds previously accumulated to Neighborhood Enhancement Area "B" pursuant to a prior version of NBMC Section 12.44.027 shall continue to be used only for the purpose of enhancing and supplementing services in the Balboa Peninsula. Both the nature of the supplemental services and the definition of the area served are set forth in NBMC Section 12.44.027.
  6. Cable Franchise: Pursuant to the provisions of the Newport Beach Municipal Code, Title 5, Business Licenses & Regulations, Chapter 5.44, in return for the use of the City's streets and public ways for the purpose of installing, operating, maintaining, or reconstructing a cable system to provide cable service, fees are collected by the City from cable providers. Those fees are to be used by the City for support of Public, Education, and Government access programming only.
  7. Oil and Gas Reserve: These funds generated by an annual amount being set aside from oil and gas field production revenues are to be used to fund abandonment of wells and facilities as they go out of service.
  8. Capital Reappropriation: This Reserve recognizes a portion of fund balance that is not readily available to fund new appropriations because it has been reappropriated through the budget adoption process or amendment process for programs or projects authorized in a prior fiscal year that are not yet complete.
- D. Assigned Fund Balance: That portion of a fund balance that includes amounts that are constrained by the City's intent to be used for specific purposes but that are not restricted or committed. This policy hereby delegates the authority to the City Manager or designee to modify or create new assignments of fund balance. Constraints imposed on the use of assigned amounts may be changed by the City Manager or his designee. Appropriations of balances are subject to Council Policy F-3 concerning budget adoption and administration.
- E. Unassigned Fund Balance:
1. Contingency Reserve: The Contingency Reserve shall have a target balance of twenty five percent (25%) of General Fund "Operating Budget" as originally adopted. Operating Budget for this purpose shall include current expenditure appropriations and shall exclude Capital Improvement Projects, Transfers Out, and additional discretionary payments to the City's unfunded pension liability. Appropriation and/ or access to these funds are generally reserved for emergency or unforeseen situations but may be accessed by Council by simple budget appropriation. Examples may include but are not limited to the following:

- a. A catastrophic loss of critical infrastructure.
- b. A State or Federally declared state of emergency.
- c. Any settlement arising from a claim or judgment.
- d. Deviation from budgeted revenue projections.
- e. Any action by another government that eliminates or shifts revenues from the City.
- f. Inability of the City to meet its debt service obligations in any given year.
- g. Other circumstances deemed necessary by City Council to meet the claims and obligations of the City.

Should the Contingency Reserve be used, the City Manager shall present a plan to City Council to replenish the reserve within five years.

2. Residual Fund Balance: The residual portion of available fund balance that is not otherwise restricted, committed, or assigned and is above and beyond the Contingency Reserve target reserve balance.

#### PROPRIETARY FUND RESERVES (NET WORKING CAPITAL)

In the case of Proprietary Funds (Enterprise and Internal Service Funds), Generally Accepted Accounting Principles ("GAAP") do not permit the reporting of reserves on the face of City financial statements. However, this does not preclude the City from setting policies to accumulate financial resources for prudent financial management of its proprietary fund operations. Since proprietary funds may include both long-term capital assets and long-term liabilities, the most comparable measure of liquid financial resources that is similar to fund balance in proprietary funds is net working capital, which is the difference between current assets and current liabilities. For all further references to reserves in Proprietary Funds, Net Working Capital is the intended meaning.

A. Water Enterprise Fund

The Water Enterprise Fund Reserves are established to cover shortfalls in operating revenues, maintain strong bond ratings, cover day-to-day operating costs, and ease the burden on ratepayers associated with large rate increases. Appropriate reserve levels help the Water Enterprise Fund with liquidity, provide operational flexibility, and demonstrate fiscal responsibility to the rating agencies. The Water Enterprise Fund will maintain the following three reserves:

1. Operating Reserve: The Water Enterprise Fund Operating Reserve represents working capital maintained by the Water Enterprise Fund to cover day-to-day expenses and maintain sufficient funds to cover accounts receivables, periods of lower than expected water sales, or unforeseen cost increases such as the cost of importing additional water if groundwater becomes unavailable. The Water Enterprise Fund Operating Reserve will maintain a minimum balance of 120 days of operating expenses once fully funded. The City Council must approve the use of these funds, based on the City Manager's recommendation. Water Enterprise Funds collected in excess of the Water Enterprise Fund Operating Reserve targets would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Water Enterprise Fund Operating Reserve may be called upon to avoid disruption to water distribution.
2. Rate Stabilization Reserve: The Water Enterprise Fund Rate Stabilization Reserve represents funds used to absorb lower than expected revenue due to short-term decreases in water sales. The Rate Stabilization Reserve mitigates wide swings in rates charged to customers over time. The Water Enterprise Fund Rate Stabilization Reserve will maintain a minimum balance of thirty percent (30%) of water use reduction once fully funded. The City Council must approve the use of these funds, based on the City Manager's recommendation. Water Enterprise Funds collected in excess of the Rate Stabilization Reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Water Enterprise Fund Rate Stabilization Reserve may be called upon to avoid disruption in water distribution.
3. Capital Reserve: The Water Enterprise Fund Capital Reserve represents funds to cover a portion of upcoming annual capital expenditures, smooth out the amount of capital infusion needed each year, and mitigate unexpected capital costs. The Water Enterprise Capital Reserve will maintain a minimum balance of seventy five percent (75%) of the annual planned CIP once fully funded.



B. Wastewater Enterprise Fund

The Wastewater Enterprise Fund Reserves are established to cover shortfalls in operating revenues, maintain strong bond ratings, cover day-to-day operating costs, and ease the burden on ratepayers associated with large rate increases. Per the reserve level recommendations, the Wastewater Enterprise Fund will maintain the following two reserves:

1. Operating Reserve: The Wastewater Enterprise Fund Operating Reserve represents the working capital the Wastewater Enterprise Fund maintains to cover day-to-day expenses and maintain sufficient funds to cover accounts receivables in the event of supplier issues, lower than expected sewer sales, or unforeseen cost increases. The Wastewater Enterprise Fund Operating Reserve will maintain a minimum balance of 90 days of operating expenses once fully funded. The City Council must approve the use of these funds based on City Manager's recommendation. Wastewater Enterprise Funds collected in excess of the Wastewater Enterprise Fund Operating Reserve targets would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Wastewater Enterprise Fund Operating Reserve may be called upon to avoid disruption in water distribution.
2. Capital Reserve: The Capital Reserve represents funds to cover a portion of upcoming annual capital expenditures, smooth out the amount of capital infusion needed each year, and help mitigate unexpected capital costs. The Wastewater Enterprise Fund Capital Reserve will maintain a minimum balance of one hundred percent (100%) of the annual planned CIP once fully funded.

C. Internal Service Funds Background

Internal Service Funds are used to centrally manage and account for specific program activity in a centralized cost center. Their revenue generally comes from internal charges to departmental operating budgets rather than external revenue sources. They have several functions.

- They work well in normalizing departmental budgeting for programs that have life-cycles greater than one year, thereby facilitating level budgeting for expenditures that will, by their nature, be erratic from year to year. This also facilitates easier identification of long term trends.
- They act as a strategic savings plan for long-term assets and liabilities.

- From an analytical standpoint, they enable appropriate distribution of city-wide costs to individual departments, thereby more readily establishing true costs of various operations.

Since departmental charges to the internal service fund duplicate the ultimate expenditure from the internal service fund, they are eliminated when consolidating entity-wide totals.

The measurement criteria, cash flow patterns, funding horizon and acceptable funding levels are unique to each program being funded. Policy regarding target balance and/ or contribution policy, gain/loss amortization assumptions, source data, and governance for each of the City's Internal Service Funds is set forth as follows:

1. For all Internal Service Funds: The Finance Director may transfer part or all of any unencumbered fund balance between the Internal Service Funds provided that the withdrawal of funds from the transferred fund would not cause insufficient reserve levels or insufficient resources to carry out its intended purpose. This action is appropriate when the decline in cash balance in any fund is precipitated by an off-trend non-recurring event. The Finance Director will make such recommendations as part of the annual budget adoption or through separate Council action.
2. Equipment Maintenance Fund and Equipment Replacement Fund: The Equipment Maintenance and Replacement Funds receive operating money from the Departments to provide equipment maintenance and to fund the regular replacement of major pieces of equipment (mostly vehicles) at their economic obsolescence.
  - a. Equipment Maintenance Fund: The Equipment Maintenance Fund acts solely as a cost allocation center (vs. a pre-funding center) and is funded on a pay-as-you-go basis by departmental maintenance charges by vehicle type and usage requirement. Because of this limited function, the target year-end balance is zero.

Contribution rates (departmental charges) are set to include the direct costs associated with maintaining the City vehicle fleet, including fleet maintenance employee salaries and benefits, operating expenses, and maintenance related capital outlay. Administrative overhead and maintenance facility improvements and replacement costs are to be provided outside of this cost unit. Governance is achieved through annual management adjustment of contribution rates on the basis of maintenance cost by vehicle and distribution of costs based on fleet use by department.

- b. Equipment Replacement Fund: Operating Departments are charged annual amounts sufficient to accumulate funds for the replacement of vehicles, communications equipment, parking equipment, and other equipment

replacement determined to be appropriate by the Finance Director. The City Manager recommends annual rate adjustments as part of the budget preparation process. These adjustments are based on pricing, future replacement schedules, and other variables.

The age and needs of the equipment inventory vary from year to year. Therefore, the year-end fund balance will fluctuate in direct correlation to accumulated depreciation. In general, it will increase in the years preceding the scheduled replacement of relatively large percentage of the equipment, on a dollar value basis. However, rising equipment costs, dissimilar future needs, replacing equipment faster than their expected life, or maintaining equipment longer than its expected life all contribute to variation from the projected schedule.

Target funding levels shall be determined by the Finance Director after considering the age, expected life, and cash flow anticipated by the replacement equipment being funded. If departmental replacement charges for equipment prove to be excessive or insufficient with regard to this target funding level, new rates established during the next budget cycle will be adjusted with a view toward bringing the balance back to the target level.

3. Insurance Reserve Funds: The Insurance Reserve funds account for the activities of general liability, workers' compensation, property, and other insurance claims. General liability and workers' compensation claims are self-insured up to an established amount, with excess insurance policies procured to address larger claims. Property and other insurance policies are procured with appropriate deductibles, and related claims payments are not funded from the City's self-insurance program.

#### Background.

The City employs an actuary to estimate the liabilities associated with the general liability and workers compensation activities. The costs typically associated with these programs include claims administration, legal defense, insurance premiums, self-insured retention, and the establishment of appropriate loss reserves including "incurred-but-not reported" (IBNR) claims. In a prescribed measurement methodology, the Actuary estimates the liabilities in conformity with Generally Accepted Accounting Principles (GAAP).

The Actuary refers to this measurement level in their report as the "Expected Level." However, because actuarial estimates are subject to significant uncertainties, actuaries typically recommend that a target funding level be set at an amount in excess of expected liability as a margin to cover contingencies. A typical target

funding level would be set to obtain a specified confidence level (the percent chance that resources set-aside will be sufficient to cover existing claims).

Full funding of the Actuary's "Target Funding Level" establishes a seventy-five percent (75%) confidence there will be sufficient resources (including projected interest) to pay the full amount of existing claims without future contributions. Funding at the "Expected Level" produces a confidence level of only fifty percent to sixty-five percent (50%-65%). Therefore, the target funding of insurance reserves should exceed the "Expected Level" to account for adverse estimate deviation.

Policy & Practice.

The City should target funding of its risk management obligations at not less than the Expected Level, described above; and not more than an amount sufficient to establish an eighty percent (80%) Confidence Level. Actuarial gains and losses should be amortized through rates over an appropriate period of time. As part of the operating budget, each department will be charged a rate equal to its proportionate share of the total "revenue" required to fund the Insurance Reserve Fund at this level.

To lessen the impact of short-term annual rate change fluctuation, City management may implement one-time fund transfers (rather than department rate increases) when funding shortfalls appear to be due to unusually sharp and non-recurring factors. Excess reserves in other areas may be transferred to the internal service fund in these instances but such transfers should not exceed the funding necessary to reach an eighty percent (80%) confidence level interval.

4. Compensated Absences Fund:

Background.

The primary purpose of flex leave, vacation leave, and sick leave is to provide compensated time off as appropriate and approved. However, under certain circumstances, typically at separation from service, some employees have the option of receiving cash-out payments for some accumulated leave balances. The Compensated Absences Fund is utilized primarily as a budget smoothing technique for any such leave bank liquidations. The primary purpose of the Compensated Absences Fund is to maintain a balance sufficient to facilitate this smoothing.

Policy and Practice.

The contribution rate will be set to cover estimated annual cash flows based on a three-year trailing average.

The minimum cash reserve should not fall below that three-year average. The maximum cash reserve should not exceed fifty percent (50%) of the long term liability. The target cash reserve shall be the median difference between the minimum and maximum figures.

Each department will make contributions to the Compensated Absences Fund through its operating budget as a specified percentage of salary. The Finance Director will review and recommend adjustments to the percentage of salary required during the annual budget development process. This percentage will be set so as to maintain the reserve within the parameters established above.

5. Post Retirement Funding Policies:

a. Pension Funding:

- (i) California Public Employees Retirement System (CalPERS): The City's principal Defined Benefit Pension program is provided through contract with CalPERS. The City's contributions to the plan include an actuarially determined employer contribution that fluctuates each year based on an annual actuarial plan valuation. This variable rate employer contribution includes the normal cost of providing the contracted benefits plus or minus an amortization of plan changes and net actuarial gains and losses since the last valuation period.

It is the City's policy to make contributions to the plan equaling at least one hundred percent (100%) of the actuarially determined contribution. Any unfunded actuarial liability (UAL) is amortized and paid in accordance with the actuary's funding recommendations. The City will strive to maintain its UAL within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual CalPERS contribution should the UAL status fall below acceptable actuarial standards.

- (ii) Laborer's International Union of North America (LIUNA): The City provides a supplemental pension plan for some employee associations through contract with LIUNA. This is funded via employee contributions of a fixed percentage of total compensation on a pay-as-you-go basis. The City is not contractually required to guarantee the level of the ultimate LIUNA benefit to retirees, nor does it do so. Therefore, the City's liability for this program is fully funded each year.

b. Other Post Employment Benefits (OPEB Funding):

### Background.

The City's OPEB funding obligations consists of two retiree medical plans.

New Plan. Effective January 2006, the City and its employee associations agreed to major changes to the Post Employment Healthcare Plan. New employees and all current employees participate in a program that requires certain defined employee and employer contributions while the employee is in active service. However, once the contributions have been made to the employee's account, the City has transferred a substantial portion of the funding risk to the employee.

Old Plan. Eligible employees who retired prior to the "New Plan" and certain active employees were eligible to continue to receive post-retirement medical benefits (a defined benefit plan). The cost was divided among the City, current employees, and retirees. In the past, this program was largely funded on a pay-as-you-go basis, so there was a significant unfunded liability. Recognizing this problem, the City began contributing to this obligation in 2001. In 2008, these assets were placed in a pre-funding trust. The City's intention is to amortize the remaining unfunded liability within 20 years.

### Policy & Practice.

New Plan. Consistent with agreements between the City and Employee Associations, the new defined contribution plan will be one hundred percent (100%) funded, on an ongoing basis, as part of the annual budget process. Funds to cover this expenditure will be contained within the salary section of each department's annual operating budget.

Old Plan. The City's policy is to pre fund the explicit (cash subsidy) portion of the Actuarial Accrued Liability (AAL) of the remnants of the old plan over a 20-year amortization period, or less. This amount will be based on the Annual Required Contribution (ARC) determined by a biennial actuarial review, subject to review and analysis by the City. The City will strive to maintain a funded status that will be within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual OPEB contribution should the funded status fall below acceptable actuarial standards.

***History***

Adopted F-3 and F-8 – 10-1-1963 (“Sewer System Funding” and “Capital Improvement Fund and Property Sale Revenues)  
 Amended F-8 – 8-15-1966  
 Amended F-8 – 5-21-1968  
 Amended F-8 – 11-12-1968  
 Amended F-8 – 3-9-1970  
 Amended F-3 – 5-25-1970  
 Amended F-8 – 2-14-1972  
 Amended F-8 – 12-10-1973  
 Amended F-8 – 11-11-1974  
 Amended F-3 – 7-11-1978  
 Adopted F-5 – 6-25-1979 (“Stabilization Fund”)  
 Amended F-8 – 10-22-1984  
 Amended F-3 – 10-22-1990  
 Adopted F-2 – 1-24-1994 (“Reserves/Designations of Fund Balance”; incorporating F-3, F-5 and F-8, and part of F-4)  
 Amended F-2 – 4-10-1995  
 Amended F-2 – 2-26-1996  
 Amended F-2 – 4-27-1998  
 Amended F-2 – 3-14-2000  
 Amended F-2 – 5-8-2001  
 Amended F-2 – 4-23-2002  
 Amended F-2 – 6-10-2003  
 Amended F-2 – 4-13-2004  
 Amended F-2 – 9-13-2005  
 Amended F-2 – 9-15-2008  
 Amended F-2 – 11-12-2008  
 Amended F-2 – 5-24-2011  
 Amended F-2 – 9-27-2011  
 Amended F-2 – 5-14-2013  
 Amended F-2 – 6-10-2014  
 Amended F-2 – 5-12-2015  
 Amended F-2 – 9-25-2018  
 Amended F-2 – 6-14-2022  
 Amended F-2 – 6-11-2024

Additionally, the City reports the following fund types:

**Non-Major Special Revenue Funds** – Used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Funds include: Building Services, Sewer Construction and Maintenance, Underground Utilities, Library Services and Library Special Tax, Gas Tax, various Parking Meter funds, Public Safety funds, Community Development, Proposition A, Proposition C, and Public Health funds.

**Non-Major Proprietary Funds** – Used to account for the acquisition, operation and maintenance of government facilities and services which are entirely self-supported by user charges. Funds include: Water, Old Pasadena Parking, Off Street Parking, Refuse Collection and Telecommunications.

**Internal Service Funds** – Used to account for computing and communication services, building maintenance, fleet maintenance and replacement, employee benefits, worker’s compensation, general liability, equipment leasing, and printing.

### BUDGETARY DATA

The City Council is required to adopt an annual budget by June 30 of each fiscal year. The budget is adopted on a basis that does not differ materially from GAAP.

An appropriated annual budget is legally adopted for the General and Special Revenue governmental funds. Annual appropriated budgets are not adopted for Debt Service funds because bond indentures are used as the method for adequate budgetary control. Capital Projects funds do not have annual appropriated budgets. Control over capital projects is maintained by a project-length capital improvement budget. This project-length budget authorizes total expenditures over the duration of a construction project, rather than year by year.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the department level and within a single fund. Transfers of appropriations within a department are permitted so long as it is within a single fund. Supplemental appropriations during the year must be approved by the City Council. These appropriations, representing amendments to the budget during the year may, or may not, be significant in relationship to the original budget as adopted. All non-CIP appropriations lapse at fiscal year-end.

### CITY COUNCIL FINANCIAL POLICIES

The City has an important responsibility to its citizens to carefully account for public funds, manage municipal finances wisely and plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. The following are the primary policies that guide the preparation of the City’s annual budget:

- Balance annual planned expenditures with estimated revenues, other financing sources, and fund balances.
- Maintain a diversified and stable revenue base to protect the City from short-term fluctuations in any one revenue source.



- Maintain a long-range fiscal perspective through the use of at least a five-year financial projection of revenues and expenditures for the City's major funds.
- Maintain a designated General Fund committed fund balance reserve equivalent to 20 percent of the General Fund's annual appropriations budget, split 15 percent to emergency commitment and 5 percent operating commitment.
- Maintain a 100 percent cash reserve to cover short-term accounts payable and accrued liability obligations and a 50 percent cash reserve to cover long-term payable obligations in the internal service Benefits Fund and a 70 percent cash reserve to cover projected claims payable obligations in the General Liability Fund and Worker's Compensation Fund.
- Require that the internal service Computing and Communications Fund and Building Maintenance Fund maintain working capital reserves equal to 10 percent of current year operating appropriations.
- Require that the internal service Fleet Maintenance Fund maintain a \$250,000 cash reserve balance.
- Require that the Sewer Construction and Maintenance Fund and Library Services Special Revenue Fund maintain working capital reserves equal to one month current year operating appropriations.
- Require that the Light and Power Fund, Water Fund, and Refuse Fund maintain working capital reserves equal to two months (one month for Refuse Fund) current year operating appropriations.

#### CITY OF PASADENA APPROPRIATIONS LIMIT

The voters of California, during a special election in 1979, approved Article XIII-B of the California State Constitution. Informally known as the "Gann Initiative," Article XIII-B provides limits regarding the total amount of appropriations in any fiscal year from "the proceeds of taxes." Every year the City Council adopts a resolution establishing an appropriations limit for the upcoming fiscal year.

The State Legislature, in 1980 added Section 9710 to the Government Code, providing that the governing body of each local jurisdiction must establish, by resolution, an appropriations limit for the following year. The appropriation limit for any fiscal year is equal to the previous year's limit, adjusted for population changes and the changes in the Consumer Price Index (or California per capita personal income, if smaller). The necessary statistical information is provided annually by the California Department of Finance.

In June 1980 the original Article XIII-B (Proposition 4) was modified by the voters by Proposition 111 and SB 88 and the changes were incorporated into the FY 1991 and FY 1992 Appropriations Limits. Beginning with the FY 1991 Appropriations Limit, a city may choose annual adjustment factors. The adjustment factors include the growth in the California Per Capita income or the growth in the non-residential assessed valuation due to construction within the city and the population growth within the county or the city. The revised annual adjustment factors were applied to the FY 1987 Limit and each year in between in order to calculate the current year's Limit. However, the Limits for FY 1987 through FY 1990 were not affected.

## CITY COUNCIL POLICY

**NUMBER:** 41

**DATE ADOPTED/AMENDED:** 12/02/08 (Amended 03/02/2021)

**SUBJECT:** Reserve Policies

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### POLICY:

The City utilizes a variety of accounting funds for accounting and budgeting for revenues and expenditures of the City. Appropriations lapse at each fiscal year-end. The City Council may authorize continued appropriations and purchase orders carryover for certain incomplete capital projects, other one-time projects and services which have not been billed or completed. Remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the City. It is appropriate that reserve policies for the City be established for each of the various funds, that the purpose of these reserves be designated, and that dollars available in excess of the reserve amounts be appropriately and effectively utilized. This policy governs the City's reserves as follows:

#### **A. General Fund**

The City will maintain a minimum fund balance of at least 50 percent of annual operating expenditures in the General Fund. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Cash flow requirements.

#### **B. Capital Improvement Fund**

The City will maintain a minimum of \$5 million in the Capital Improvement Projects (CIP) fund as a reserve for major improvement projects related to roadways, storm drains, parks, buildings, rights-of-way, and the sewer system. Subject to the annual budgeting process, the CIP reserve will be funded, to the extent possible, by allocating the following to the CIP fund:

1. Transient Occupancy Tax (TOT).
  - a. Pursuant to the City's Municipal Code Chapter 3.16, Transient Occupancy Tax is collected from hotels that are located within the City. "Hotel" means any structure, or any portion of any structure, which is occupied or intended or designed for occupancy by transients for dwelling, lodging or sleeping purposes, and

includes any hotel, inn, tourist home or house, motel, studio hotel, bachelor hotel, lodging house, rooming house, apartment house, dormitory, public or private club, mobile home or house trailer at a fixed location, or other similar structure or portion thereof.

- b. The tax imposed in any hotel is based on temporary occupancy. "Temporary" means a period of thirty consecutive calendar days or less, counting portions of calendar days as full days.
- c. General Fund transfer amounts to the CIP are equal to the TOT collected from the Terranea Resort, the main source of TOT revenues. During the annual budget process if it is determined that the General Fund will not have a balanced budget, the City Council may reduce the transfer amount to the CIP by a portion or all of the increases in the public safety contract.

- 2. If deemed necessary, the City Council may allocate all or a percentage of the prior year's General Fund unrestricted excess reserve during budget adoption process.

All interest earnings in this fund will be used for capital improvement projects.

**C. Equipment Replacement Fund**

The City will maintain a minimum reserve of 75% but no more than 100% of the estimated replacement cost for equipment assets that are due to be replaced in the City's next fiscal year.

**D. Water Quality Flood Protection Fund**

Project spending in the Water Quality Flood Protection (WQFP) fund fluctuates year to year. The Storm Drain User Fee is a source of funding for these projects. To avoid a fluctuating Fee, the City will maintain retained earnings over the life of the WQFP fee to establish rate stabilization, thereby enabling fund availability for scheduled projects and maintenance.

**E. Building Replacement Fund**

The City will maintain retained earnings in this fund to accumulate monies and interest earnings to finance major improvements (e.g. roofing), and partially provide for future replacement of City owned buildings.

**F. Utility Undergrounding Fund**

The City will maintain retained earnings in this fund to accumulate monies for relocating utility poles and lines on City arterial roadways underground, as well as provide residents assistance with the process leading to utility undergrounding in residential areas of the City.

**G. Street Maintenance Fund**

The City will maintain a minimum of one year's appropriations for road maintenance on Palos Verdes Drive South in the landslide area.

**H. Habitat Restoration Fund**

The City will maintain a minimum of \$50,000 in this fund as required by the National Communities Conservation Plan (NCCP) for emergency use for habitat restoration purposes in addition to maintaining any interest earnings.

**I. Subregion One Maintenance Fund**

As part of the development agreement for Subregion One, the developer provided \$750,000 as an endowment to generate interest earnings for future maintenance of the open space area in Subregion One.

**J. Improvement Authority Abalone Cove Fund**

In connection with the Horan lawsuit, the Redevelopment Agency's Reimbursement and Settlement Agreement with property owners and the County stipulated that \$1,000,000 of County loan proceeds was to be deposited in the Abalone Cove Maintenance Nonexpendable Trust Fund of the Joint Powers Improvement Authority. Interest earnings from this deposit are used to maintain landslide abatement facilities in the Abalone Cove area of the active landslide, except sewers in accordance with the reimbursement and settlement agreement

Reserve levels will be reviewed annually during the budget process. Any recommended adjustments to reserve levels will be presented to City Council for its consideration during the annual budget process.

**COMMITMENTS AND ASSIGNMENTS OF FUND BALANCE:**

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides the City with a method to self-classify fund balance for financial statement reporting purposes.

**A. Committed Fund Balance**

Fund balance may be committed to specific purposes using its highest level of decision-making authority, the City Council. It is the City Council's policy that commitments of fund balance for a fiscal year must be adopted by resolution prior to fiscal year end. Amounts that have been committed by the City Council cannot be used for any other purpose unless the City Council adopts another resolution to remove or change the constraint.

**B. Assigned Fund Balance**

The General Fund balance may be assigned for amounts the City Council intends to use for a specific purpose. It is the City Council's policy that assignments of fund balance for a fiscal year must be approved by minute-order of the City Council prior to the fiscal year end. Any changes to assignments must also be made by minute-order of the City Council.

It is the City Council's policy to spend classified fund balance in the following order when amounts in more than one classification are available for a particular purpose:

1. Restricted Fund Balance – amounts constrained to specific purpose by their providers through constitutional provisions or enabling legislation. Examples include grants, bond proceeds and pass-through revenue from other levels of government.
2. Committed Fund Balance – amounts constrained to specific purpose by resolution of the City Council.
3. Assigned Fund Balance – amounts in the General Fund which are intended to be used for a specific purpose, expressed by minute-order of the City Council.
4. Unassigned Fund Balance – amounts available for any purpose in the General Fund.

**BACKGROUND:**

Reserves, rainy-day funds, or contingency funds are a prudent fiscal policy and an important credit factor in the analysis of financial analysis and management. Local governments have experienced much volatility in their financial stability due to the economy, natural disasters, terrorist attacks, and actions taken by state government which includes taking revenues from local governments to resolve state budget problems. California cities are at an even greater disadvantage than the rest of the country due to the unique regulations imposed by Proposition 13, and the inability to raise property taxes if the need would arise. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include, but are not limited to: cash flow requirements, economic uncertainties including downturns in the local, state or national economy, local emergencies and natural disasters, loss of major revenue sources, unanticipated operating or capital expenditures, uninsured losses, tax refunds, future capital projects, vehicle and equipment replacement, and capital asset and infrastructure repair and replacement. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of the City.

# Fiscal Policy

Fiscal Policy Statement	Status	Comments
<p><b>Long-Term Debt Policies</b></p> <p>The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.</p>	✓	
<p>The City may issue long-term interfund loans to fund capital improvements. Interfund loans will be permitted only if a specific source of repayment is identified within the “borrowing” fund. Excess funds must be available and the use of these funds will not impact the “lending” fund’s long-term operations. Long-term interfund loans will be fully amortized (principal and interest included in payment). The prevailing interest rate and duration of the loan will be established by the City Treasurer. Principal and interest will be paid to the lending fund. Long-term interfund loans require Council approval. Long-term interfund loans will be disclosed in the City’s annual Operating Budget.</p>	✓	
<p>The City will establish and maintain a Debt Policy.</p>	✓	
<p>The City will establish a restricted reserve in the Water Operating Fund equal to one year’s debt service on the State Revolving Loan. The purpose of this reserve will be to provide a debt reserve as required under the State Revolving Fund loan financing agreement.</p>	✓	State Revolving Loan Reserve = \$900,600
<p><b>Fund Balance and Reserve Policies</b></p> <p>The City will maintain emergency reserves equal to 18% of operating expenditures of the General Fund. The primary purpose of this reserve is to provide stability during a significant economic downturn, or to offset a significant one-time loss of revenue. The reserve exists in order to provide short-term funding to protect the City’s essential service programs and funding requirements or to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.</p>	✓	FY 2025 Emergency Reserve = \$15.0 million, or 18% of General Fund operating expenditures
<p>The City will maintain an emergency reserve equal to 12% of operating expenses for Enterprise Funds. The primary purpose of these reserves is to protect the Funds during periods of economic downturn, other unanticipated expenses, or emergency expenses that could not be reasonably foreseen during preparation of the budget.</p>	✓ -- -- ✓ ✓	FY 2024-25 Emergency Reserves: Water \$1,528,000 Sewer - \$195,000 Storm Drain - \$116,000 Solid Waste - \$35,000 Golf - \$359,000
<p>The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement.</p>	--	

# Fiscal Policy

Fiscal Policy Statement	Status	Comments
The City will establish a Capital Equipment Replacement reserve and a Facilities Maintenance Capital Asset reserve for accumulation of funds for the replacement or worn and obsolete equipment other than vehicles and for costs associated with the maintenance of all City facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.	✓ ✓	FY 2024-25 Capital Equipment Reserve = \$2,005,000; FY 2024-25 Facilities Maintenance Reserve = \$1,720,000
The City will establish Water, Sewer, Storm Drain and Golf depreciation reserves for costs associated with the major maintenance and capital improvement costs included in the Enterprise Funds. The minimum reserve level shall be at a level equal to the projected three-year capital and major maintenance costs.	-- -- -- ✓	FY 2024-25 Depreciation Reserves: Water = \$7.6 million Sewer = \$3.6 million Storm Drain = \$0.9 million Golf = \$3.8 million
The City will establish a Golf Course Improvement reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected three year costs.	✓	FY 2024-25 Golf Course Improvement reserve = \$1.3 million
The City will establish a Park Asset Replacement Reserve with a target balance of \$1.2 million for replacement of park assets in the future. The reserve balance will be reviewed annually and funded through one-time revenues or undesignated General Fund balance transfers, when available.	--	FY 2024-25 Park Asset Replacement Reserve = \$0.3 million
The General Liability self-insurance reserve will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of one times its annual insurance authority premium. In addition, the City will perform an annual analysis to document those claims which are not covered by the insurance pool to which the City belongs, and reserve an additional appropriate amount to pay for such uncovered claims.	✓	FY 2024-25 General Liability Reserve = \$3.2 million
The Workers' Compensation self-insurance reserve will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	✓	FY 2024-25 Workers Compensation Reserve = \$2.0 million
The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	✓	FY 2024-25 Fleet Replacement Reserve = \$3.7 million

**RESOLUTION NO. 11250 (2021 SERIES)**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN LUIS OBISPO, CALIFORNIA, ADOPTING A COMPREHENSIVE FUND BALANCE AND RESERVE POLICY**

**WHEREAS**, in 2009, the Governmental Accounting Standard Board (GASB) issued Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions; and

**WHEREAS**, the City of San Luis Obispo, within its Financial Plan, has adopted an extensive budget and financial policy framework; and

**WHEREAS**, the City’s fund balance and reserve levels have never been adopted in accordance with GASB 54; and

**WHEREAS**, in order to facilitate public access and provide transparency, the City desires to adopt a standalone policy for its fund balances, reserve levels, and fund designations in accordance with GASB 54.

**NOW, THEREFORE, BE IT RESOLVED** by the Council of the City of San Luis Obispo that:

**SECTION 1.** Fund Balance and Reserve Policy. The City herewith adopts a fund balance and reserve policy outlining:

- a) Fund balance in accordance with GASB 54 for its governmental funds.
- b) Reserve levels in its governmental and enterprise funds as previously adopted.
- c) Designated Funds as previously adopted.

**SECTION 2.** All necessary language shall be incorporated into the City’s two-year Financial Plan and references shall be provided.

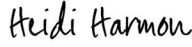


**SECTION 3.** The Fund Balance and Reserve Policy, Exhibit A, shall be posted on the City's website under the Finance Department's online document library for easy access by the public.


Upon motion of Council Member Christianson, seconded by Vice Mayor Stewart, and on the following roll call vote:

- AYES: Council Member Christianson, Marx, Pease, Vice Mayor Stewart, and Mayor Harmon
- NOES: None
- ABSENT: None


The foregoing resolution was adopted this 1<sup>st</sup> day of June 2021.

DocuSigned by:  
  
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 Mayor Heidi Harmon

ATTEST:

DocuSigned by:  
  
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 Teresa Purrington  
 City Clerk

APPROVED AS TO FORM:

DocuSigned by:  
  
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 J. Christine Dietrick  
 City Attorney

**IN WITNESS WHEREOF**, I have hereunto set my hand and affixed the official seal of the City of San Luis Obispo, California, on 6/8/2021 | 3:57 PM PDT.


DocuSigned by:  
  
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 Teresa Purrington  
 City Clerk

Exhibit A



# **CITY OF SAN LUIS OBISPO**

## **FUND BALANCE & RESERVE POLICY**

**June 2021**

# Fund Balance & Reserve Policy

Derek Johnson, City Manager

*Prepared by the Department of Finance*

Brigitte Elke – Finance Director

Resolution 11250 (2021 Series)



# CITY OF SAN LUIS OBISPO

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# FUND BALANCE & RESERVE POLICY

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## PURPOSE

This policy establishes guidelines and procedures for allocating and reporting the City's fund balances in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 and as committed by the City Council effective beginning fiscal year ending June 30, 2021.

Additionally, the policy establishes the City's reserve levels to address protection from risk and unexpected situation that require financial resources. The City of San Luis Obispo faces risks like revenue shortfalls during recessions and losses from extreme events, like earthquakes, wildland fires, flooding, and other natural disasters. Prudent reserve levels help make sure that the City of San Luis Obispo can respond quickly and decisively to those events. Reserves also support vital public services during revenue declines. A reserve policy describes how much the City will try to retain in the reserves. It also describes acceptable uses of reserves.

Since reserve levels need to be considered when establishing fund balances, both are addressed within this policy.

## GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITION

The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clear fund balance classifications that can be consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

## ACCOUNTING GUIDANCE

Fund balance is the difference between the assets and liabilities reported in a governmental fund. GASB Statement No. 54 defines five separate components of fund balance, each of which identifies the extent to which amounts can be spent.

The following components are defined by GASB Statement 54 and shall be reflected in the City's Fund Balance designations:

- **Non-spendable Fund Balance.** Assets that cannot be converted to cash (i.e., prepaid items and inventories of supplies) and assets that will not be converted to cash soon enough to affect the current accounting period.
- **Restricted Fund Balance.** Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments and limitations imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance.** Limitations imposed at the highest level of decision making that requires formal action at the same level to remove (City Council).

- **Assigned Fund Balance.** Intended use established by highest level of decision making by a body designated for that purpose or by an official designated for that purpose (delegated by the City Council to the City Manager).
- **Unassigned Fund Balance.** Excess of non-spendable, restricted, committed, and assigned total fund balance.

## PRIMARY OBJECTIVE

This policy is focused on the allocation and financial reporting of the last three components – committed, assigned, and unassigned – as the first two components (non-spendable and restricted) are defined by the nature of their restrictions.

This policy also addresses the City’s defined reserve levels for inclusion in the City’s budget and fiscal policies and application throughout the various fund forecasts.

## APPLICABILITY

This policy pertains to all funds that have adopted reserve levels. It further defines the Governmental Funds’ ending fund balance and their components.

## FUND BALANCE & WORKING CAPITAL DETERMINATION

### COMMITTED FUND BALANCE

The following fund balances shall be committed fund balance for the purpose of the City's annual financial statements. Since this level of fund balance and its limitations are imposed at the highest level of decision making, they require formal action at the same level to be removed.

1. Minimum fund balances or working capital as outlined in the Reserves section of the policy.
2. Any revenue over expenditures at fiscal year end in the Local Revenue Measure sub-fund. The City's Local Revenue Oversight Committee, an advisory body to the City Council, shall make recommendations as to the use of the fund balance.
3. Remaining fund balance in the Insurance Fund

### ASSIGNED FUND BALANCE

The following assignments are considered assigned fund balance for the purpose of the City's annual financial statements:

- Encumbrances
- Development Services Designation
- Others as applicable at fiscal year-end
- Public Safety Equipment-project funds
- Approved Year-End Carryover

### UNASSIGNED FUND BALANCE

These are residual positive net resources in excess of what can properly be classified in one of the other four components of fund balance (surplus). Since a surplus does not represent a recurring source of revenue, it shall not be used to fund a recurring expenditure; however, it may be appropriated to fund one-time expenditures or uses not already funded through an annual budget appropriation.

The City Council may appropriate funds for the following non-recurring purposes:

- Elimination of unfunded liabilities related to the CalPERS retirement system or Other Post-Employment Benefit (OPEB) obligations.
- Capital improvements or purchases.
- Reduction or avoidance of debt. If there is a short-term debt within the General Fund, the surplus may be applied to reduce or eliminate the debt, if determined to be advantageous for the City. If a borrowing is scheduled, the surplus may be used to reduce the principal amount the City needs to obtain, if determined to be in the best long-term interest of the City.
- Any other purpose the City Council deems in the best interest of the community and the City organization.

### ANNUAL REPORTING AND PERIODIC REVIEW

Before completion of the City's Annual Financial Report, the Finance Director shall prepare a fund balance status report as part of the City's financial reporting process. At least every two years, together with the City's Financial Plan adoption, the City Council shall affirm or revise the Policy including the percentage range established by the components described herein.

## RESERVES

### GOVERNMENTAL FUNDS

- A. **Minimum Fund Balances.** The City will maintain a minimum fund balance of at least 20% of operating expenditures in the General Fund. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:
- a. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
  - b. Contingencies for unseen operating or capital needs.
  - c. Cash flow requirements.

- B. **Fleet Replacement.** For the General Fund fleet, the City will establish and maintain a Fleet Replacement Fund to provide for the timely replacement of vehicles and related equipment with an individual replacement cost of \$15,000 or more. The minimum committed fund balance in the Fleet Replacement Fund is set at \$500,000 for the emergency replacement of vehicles that are damaged beyond repair and are either not covered under the City's property insurance program or the vehicle has a high replacement cost and insurance proceeds will be inadequate to provide for the vehicle's replacement (fire engine). Above this contingency level, the amount retained in this fund, coupled with the annual contributions received by it from any source, shall be adequate to fully fund the equipment replacements approved in the Financial Plan. If in any given year, the minimum fund balance is depleted for above mentioned uses and as approved by the City Council, it shall be replenished over the next two-year Financial Plan period.

Interest earnings and the proceeds from the sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the Fleet Replacement Fund.

- C. **Information Technology (IT) Replacement Fund.** The City will establish an IT Replacement Fund for the General Fund to provide for the timely replacement of information technology, both hardware and software, with an individual replacement cost of \$25,000 or more. The minimum committed fund balance in this fund is set at \$400,000 for the emergency replacement of equipment that is damaged beyond repair and not covered under the City's property insurance program. If in any given year, the minimum fund balance is depleted for above mentioned uses and as approved by the City Council, it shall be replenished over the next two-year Financial Plan period.

Interest earnings and the proceeds from the sale of surplus equipment as well as any related damage and insurance recoveries will be credited to the fund.

- D. **Capital Projects Reserve Fund.** The City will maintain a committed reserve of 20% of capital improvement plan budget from the Local Revenue Measure for the purposes of offsetting unanticipated cost increases, unforeseen conditions, and urgent unanticipated projects to provide continued investment in infrastructure maintenance and enhancement. Use and



allocations of funds from the Capital Projects Reserve Fund will be made to Capital Projects including Major Facility Replacement upon Council approval as necessary during any fiscal year.

## ENTERPRISE FUNDS

- A. **Minimum Fund and Working Capital Balances.** The City will maintain a minimum fund balance of at least 20% of operating expenditures in the water, sewer and parking enterprise funds. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:
1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
  2. Contingencies for unseen operating or capital needs.
  3. Cash flow requirements.
- B. **Water and Sewer Rate Stabilization Reserves.** The City will maintain a reserve for the purposes of offsetting unanticipated fluctuations in Water Fund or Sewer Fund revenues to provide financial stability, including the stability of revenues and the rates and charges related to each Enterprise. The funding target for the Rate Stabilization Reserve will be 10% of sales revenue in the Water Fund and 5% of sales revenue in the Sewer Fund.

Conditions for utilization and plan for replenishment of the reserve will be brought to Council for its consideration during the preparation and approval of the Financial Plan or as may become necessary during any fiscal year.

## USES OF RESERVES

The City limits the use of reserves and working capital balances to address unanticipated, one-time needs or opportunities. Under no circumstances can they be applied to recurring annual operating expenditures. Reserves will be used to the extent annual expenditures exceed revenues as reported in the City's annual audited financial statements if circumstances do not allow for the activation of the City's Fiscal Health Contingency Plan implementing hiring, purchasing, and travel chills/freezes.

## REPLENISHMENT OF RESERVES

Reserves shall be replenished to the extent annual revenues exceed expenditures as reported in the City's annual audited financial statements. Revenues in excess of expenditures at the end of the fiscal year shall be used to first satisfy committed reserve requirements before appropriating for other uses.

## DESIGNATED FUNDS

- A. **Major Facility Replacement Fund.** The City will maintain a designated fund for the purpose of providing for improvements having a cost of \$25,000 or more to City-owned, general government building and structures. The amount retained in this fund, coupled with annual contributions received by it from any source, shall be adequate to fund maintenance and replacement of City facilities.
- B. **Infrastructure Investment Fund.** The City will maintain a designated fund for the purpose of funding infrastructure projects that contribute to improved economic development and enhanced quality of life in the City of San Luis Obispo. The following evaluation criteria shall be applied to project eligibility:
- a. The use of City funds shall not offset any cost that would be expected to be paid to meet the fair share obligation of any developer.
  - b. The use of City funds shall not offset a project specific cost identified through the environmental review process or under existing regulations or policies.
  - c. The use of funds shall support a project that would not otherwise be feasible due to economic, timing or other issues outside control of the project proponents or the City.
  - d. The project shall provide public benefit by contributing to economic development and quality of life within the City.
- C. **Insurance Fund.** The City shall maintain an Insurance Fund to manage payments for liability, workers' compensation, crime, pollution, special events, property, and volunteer insurance. Within the Insurance Fund, a self-insured retention (SIR) will be set aside to cover expenses associated with claims from the Excess Liability Insurance Program. The SIR will be funded based on 150% (75% confidence level) of the previous five-year average claims experience (claims paid, reserves for known claims, and administrative expenses). The Insurance Fund will maintain a reserve sufficient to guard against substantial claims which will be determined based on annual actuarial report information.
- If required due to depletion of fund balance, sufficient annual appropriations will be transferred to the Insurance Fund from the General Fund in the amount needed to ensure the 150% funding status.
- D. **Future Capital Project Designations.** The Council may designate specific fund balance levels for future development of capital projects that it has determined to be in the best long-term interests of the City.
- E. **Other Designations and Reserves.** In addition to the designations noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements; reserves for encumbrances; and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.
- F. **Essential Safety Equipment Funding.** The City will carry forward year-end project balance designated for essential safety equipment indefinitely.



## APPROPRIATIONS LIMIT

The Council will annually adopt a resolution establishing the City's appropriations limit (the Gann Limit) calculated in accordance with Article XIII-B of the Constitution of the State of California, Section 7900 et seq. of the State of California Government Code, and any other voter approved amendments or state legislation that affect the City's appropriations limit. Under the Gann Limit, a maximum amount is established for tax-funded government services. That amount is to be adjusted each year depending on city population, changes in non-residential assessed value, and the transfer of financial responsibility for various governmental activities from one level of government to another. Any significant amount of state tax revenue received above that Gann Limit is to lead to future tax rebates or tax cuts.

The supporting documentation used in calculating the City's appropriations limit and projected appropriations subject to the limit will be available for public and Council review at least 15 days before Council consideration of a resolution to adopt an appropriations limit. The Council will generally consider this resolution in connection with final approval of the budget.

## FUND POLICIES

### GENERAL FUND

The City will maintain at the end of FY 2023-24 a General Fund Operating Contingency reserve at a level that is equal to at least 13.5%, and at the end of FY 2024-25 a level that is equal to at least 14%, of the following year's General Fund annual operating and capital expenditure budget and subsidies to other funds covered by ongoing revenues as originally adopted by Council. Strong reserves allowed the use of contingency and economic uncertainty funds during the severe economic downturn that resulted from the pandemic, while the City retained a stable Rainy Day Fund reserve level of 12.5% of ongoing expenditures in the event of a new emergency. As revenues continue to recover, the City is committed to increase its Contingency reserve by 0.5 percentage point a year until it once again reaches 15% in FY 2026-27.

Council approval will be required before expending funds from the Operating Contingency.

In addition to the General Fund Contingency, the City's goal is to maintain an Economic Uncertainty reserve balance with the level to be established as needed.

The City will maintain a balance in the General Fund for earned vacation benefits of General Fund employees. Compensated absences for all employees are recorded in the respective funds.

The City will seek to maintain sufficient funds in its fund balance to act as potential capital contingency fund balance. This balance is intended to be used for major capital repair where facility failure, unexpected hazards, or destruction of City property has occurred and where repair or replacement is not planned within the established capital, operations, or other replacement funds.

## APPENDIX - FISCAL POLICIES

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### EQUIPMENT REPLACEMENT FUNDS

The City will maintain a Fleet Replacement Fund to provide for the timely replacement of vehicles and related equipment. To the extent possible, the City will maintain a minimum fund balance in the Fleet Replacement Fund of at least 15% of the original purchase cost of the items accounted for in this fund. The annual contribution to this fund will generally be based on the annual use allowance, which is determined based on the estimated life of the vehicle or equipment and its original purchase cost. Interest earnings and sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the Fleet Replacement Fund.

The City will maintain a Computer Equipment Replacement Fund to provide for the timely replacement of information hardware technology. The annual contribution to this fund will generally be based on the annual use allowance, which is determined based on the estimated life of the equipment and its original purchase cost. To the extent possible, the City will maintain a minimum fund balance in the Computer Equipment Replacement Program of at least 25% of the original purchase costs of the items accounted for in this fund.

### WATER, WASTEWATER AND RESOURCE RECOVERY AND RECYCLING FUNDS

The City will maintain reserves for the purposes of offsetting unanticipated fluctuations in Water, Wastewater or Resource Recovery and Recycling Fund revenues and expenditures to provide financial stability, including the stability of revenues and the rates and charges related to each Enterprise. The reserves are based on the following:

#### Water Fund

- Operating and capital reserves based on industry and bond rating agency best practices.
- A rate stabilization reserve based on industry best practices.

#### Wastewater Fund

- Operating and capital reserves based on industry and bond rating agency best practices.
- A rate stabilization reserve based on industry best practices.

#### Resource Recovery and Recycling Fund

- Operating and capital reserves based on industry and bond rating agency best practices.

### FUND BALANCE CLASSIFICATIONS

The City's fund balance is made of the following components, or classifications:

- Non-spendable fund balance typically includes inventories, prepaid items and other items, that by definition cannot be appropriated.



- The restricted fund balance category includes amounts that can be used only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislations.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment.
- Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Manager or designee has the authority to establish, modify or rescind a fund balance assignment.
- Unassigned fund balance is the residual classification for the City's funds and includes all spendable amounts not contained in the other classifications.

The City considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The City's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used.

## **INTERFUND TRANSFERS AND LOANS**

In order to achieve important public policy goals, the City has established various special revenue, capital project, debt service and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures and fund equity.

Any transfers between funds for operating purposes are clearly set forth in the Biennial Budget. From time to time, interfund borrowing may be appropriate; however, this is subject to the following criteria in ensuring that the fiduciary purpose for that fund is met: The Council must approve temporary interfund loans, while the Director of Finance and the City Manager are authorized to negotiate and approve terms and conditions of those loans.

## **INDIRECT COST ALLOCATION FOR GENERAL FUND SERVICES**

Proprietary and special revenue fund programs, which are financed by service user fees or grant funding, are assessed administrative costs to reflect the true costs of doing business through the City's indirect cost allocation plan. This plan provides a reimbursement to the General Fund for central services costs such as custodial services, personnel services, financial services, facilities maintenance, legal services, and administrative time, which is directly applicable to enterprise and special revenue fund operations. Data used in determining cost allocation is gathered from the last audited annual financials. Cost allocation plan updates will occur, at a minimum, every five years. During years between updates, a factor reflecting a blended expenditure increase will be added to the existing amount.

The legal level of expenditures is controlled at the fund level, and appropriations lapse at the end of each fiscal year. Re-appropriation by the City Council only occurs for multi-year infrastructure and capital projects.

Department Heads may, without Council approval, amend individual line items within any fund in the maintenance and operations portions of the budget without increasing total appropriations for that division. The City Manager may, without Council approval, amend individual line items within any fund, and between divisions and programs, in the personnel costs, maintenance and operations, capital outlay and capital projects portions of the budget without increasing total appropriations for that fund.

#### 4. GENERAL FUND RESERVES

General Fund Reserves are described as:

- Unassigned Fund Balance - These reserves are in spendable form and may become either restricted, committed, or assigned. The City strives to attain a General Fund undesignated fund balance equal to a minimum 30% of General Fund revenues at year end.
- Assigned Fund Balance – These reserves are set aside or earmarked for particular purposes, and the authority to designate these reserves can be delegated, and may take less formal action to limit how the reserves are used.
- Restricted Fund Balance – These reserves are subject to restrictions that are legally enforceable by outside parties, such as bondholders.
- Committed Fund Balance – These reserves are designated by the City Council, and are designated for specific purposes, through formal action. Committed balances can be modified by the City Council taking formal action.

Committed (Designated) Reserves shall be reviewed and designated annually by the City Council prior to Budget adoption. Upon designation of a reserve for a specific purpose, the Council will ensure the following:

- The purpose of the reserve will be specified at the time of designation.
- The City Council will also identify whether the designation is a one-time designation or whether an amount specified by the City Council will be added to the designated reserve on an annual basis.
- Nothing limits the City Council's authority to un-designate, or re-designate any General Fund Designated Reserve for another governmental purpose, pursuant to formal City Council action.

#### 5. ENTERPRISE FUND

**The City requires the water, sewer, and golf course enterprise funds be self-supporting. The City recognizes that enterprise funds function with accounting practices that are different from those used by governmental funds. Therefore, for enterprise funds, the City will strive to maintain operating budgets that produce annual net revenues that meet or exceed the compliance requirements of debt coverage ratios generally.**

The sewer fund was recognized as an enterprise fund starting in FY 2009/10, with the requirement of self-supporting funding. Water and sewer rate increases will assure that revenues exceed operating expenditures, including debt service. Budgeted water capital projects will be paid from a \$37.8 million 2016 Water Bond issuance. Bond debt service will be

## City of Thousand Oaks Administrative Policies and Procedures

<b>SUBJECT:</b> Governmental Fund Balance Policy	<b>APP NO.:</b> 14.020 <b>Submission Date:</b> 09/13/11 <b>Revision Dates:</b> 9/26/13; 12/17/14	<b>AUTHORITY:</b> City Manager <b>Adoption/Approval Date:</b>  <b>Revision Dates:</b>
<b>DEPARTMENT:</b> <a href="#">FIN</a>		

### PURPOSE:

This Fund Balance Policy establishes guidelines and procedures for allocating and reporting fund balance in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and as committed by City Council, effective beginning fiscal year ending June 30, 2011.

### ACCOUNTING GUIDANCE:

Fund balance is the difference between the assets and liabilities reported in a governmental fund. GASB Statement No. 54 defines five separate components of fund balance, each of which identifies the extent to which amounts can be spent.

The following components are defined by GASB Statement No. 54 and shall constitute the City's Fund Balance:

- *Nonspendable Fund Balance* (inherently nonspendable) – Assets that cannot be converted to cash (i.e., prepaid items and inventories of supplies) and assets that will not be converted to cash soon enough to affect the current period.
- *Restricted Fund Balance* (externally enforceable limitations on use) – Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments and limitations imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* (self imposed limitations on use set in place prior to the end of the fiscal year) – Limitation imposed at the highest level of decision making that requires formal action at the same level to remove (City Council).
- *Assigned Fund Balance* (limitation resulting from intended use) – Intended use established by highest level of decision making, by a body designated for that purpose, or by an official designated for that purpose (delegated by the City Council to the City Manager).
- *Unassigned Fund Balance* (residual net resources) – Excess of nonspendable, restricted, committed, and assigned total fund balance.

### DIRECTIVE:

The first two components, Nonspendable and Restricted Fund Balance, are not addressed in this policy due to the nature of their restrictions. This policy is focused on the allocation and financial reporting of the last three components, Committed, Assigned, and Unassigned. City Council policies for these three components are provided below.

***Committed Fund Balance:*** City Council, as the City's highest level of decision-making authority, shall commit fund balance for specific purposes by formal action, such as by ordinance or resolution, or approval through adoption of this policy with the biennial budget. These committed amounts may not be used for any

other purpose unless the City Council removes or changes the specified use through the same level of formal action. City Council action to commit fund balance shall occur within the fiscal reporting period; however the amount can be determined subsequently.

- General Fund Emergency Contingency: On February 8, 2000, the City Council approved the establishment of a 5% emergency contingency for economic uncertainties. The contingency shall be calculated by taking 5% of General Fund and Library Fund's budgeted expenditures and any capital project budget carryovers. Budgeted expenditures will be those budgeted in the upcoming fiscal year. General Fund emergency contingencies shall be used only with City Council approval for:
    1. Emergencies (e.g., natural disasters such as fires, floods, or earthquakes or other catastrophic events) that are nonrecurring expenditures.
    2. Required to maintain essential services in a severe, short-term fiscal crisis when revenues are insufficient.
  - Working Capital Reserve: The City's General Fund shall maintain a working capital reserve. This shall be calculated by taking 15% of General Fund and Library Fund's budgeted expenditures and any capital project budget carryovers. Budgeted expenditures will be those budgeted in the upcoming fiscal year. General Fund working capital contingencies shall be used only with City Council approval for:
    1. Emergencies (e.g., natural disasters such as fires, floods, or earthquakes or other catastrophic events) that are non-recurring expenditures should the Emergency Contingency be insufficient.
    2. Required to maintain essential services in a severe, long-term fiscal crisis (more than three years) when revenues are insufficient.
    3. Unexpected major capital investment requirement that was not included in other committed or assigned fund balance components.
  - Capital, Maintenance, and Grant Projects: Appropriations approved in the biennial Capital Improvement Program Budget.
  - Endowments: \$8.0 million committed to the Endowment Fund with interest earnings committed to fund the City's annual Social Services, Community Events, and Sports Endowment grants and any future endowments established by City Council action.
- Assigned Fund Balance:** The City Council delegates the authority to assign fund balance to the City Manager, for intended specific purposes. The following assignments are established and may be modified by the City Manager as deemed appropriate.
- Encumbrances: Encumbrance balances that are not included in restricted or committed fund balance shall be considered assigned and will be reported by function.
  - Continuing Appropriations: Fund balance levels sufficient to meet funding requirements for projects approved in prior fiscal years and which are carried forward into the new fiscal year. Continuing appropriations will be reported by function.
  - Public Building/Infrastructure Replacement/Maintenance Reserve: Assigned for future building and infrastructure replacement and maintenance projects as identified in Capital Improvement Plan but not included in the City Council approved Budget and/or as future project requirements are identified.
  - Contingency for Legal Settlements: Assigned for legal settlements that may exceed the City's actuarially determined annual accrued liability in the General Liability Internal Service Fund determined based on ongoing litigation.



- Compensated Absences: Assigned for unused vacation and miscellaneous leave hours earned by City employees at the employees' hourly rate.
- Debt Service: Assigned to provide for future debt service obligations.

***Unassigned Fund Balance***: These are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four components. The General Fund is the only fund that may report a positive (surplus) unassigned balance. Conversely, any governmental fund in a negative (deficit) position could report a negative amount of unassigned fund balance.

Surplus: Since a surplus does not represent a recurring source of revenue, it shall not be used to fund a recurring expense; however, the surplus may be appropriated for use to fund a one-time expenditure or use not already funded through an appropriation. If it is determined there is an operating surplus:

- 1) The City Council delegates the authority to the City Manager, at his/her discretion, to:
  - a) Transfer 10% of unassigned fund balance, not to exceed \$100,000, to the Community Recreation and Open Space Endowment Fund (CROSEF). Transfer will be processed in the new fiscal year following the surplus.
- 2) The City Council may appropriate funds for the following nonrecurring purposes:
  - a) Capital improvements and purchases. Surplus funds may be used for capital improvements and equipment purchases that are not financed with borrowings or other contributions.
  - b) Elimination of unfunded liabilities related to the City's Post-Employment Benefits. Any surplus may be transferred to reduce the unfunded liability in the Pension Fund, or California Employer's Retiree's Benefits Trust Fund (CERBT), and/or any other fund initiated by the City to provide post-employment benefits.
  - c) Reduction or avoidance of debt. If there is short-term debt within the General Fund, the surplus may be applied to reduce, or eliminate, the debt if determined to be advantageous for the City. If a borrowing is scheduled, the surplus may be used to reduce the principal amount the City needs to obtain if determined to be advantageous for the City.
  - d) Tax, fee, or rate stabilization. Surplus funds may be assigned for a stabilization fund in order to avoid raising taxes, fees, or rates related to the fund in subsequent years.

Deficit: If it is determined there is a deficit in the General Fund, the deficit shall be restored through the following mechanisms, in order of priority:

- 1) Reduction of assigned fund balance levels.
- 2) Committed fund balance levels.
- 3) Transfer of unassigned fund balances from other related funds where legally permissible.

***Funds:***

1. General Fund: City's primary operating fund accounts for all financial resources of the City except those required to be accounted for in another fund.
2. Special Revenue Funds: Account for specific revenues that are legally restricted to expenditures for particular purposes.

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3. Debt Service Funds: Account for the accumulation of resources and payment of principal and interest of the Public Finance Authority or Successor Agency. City will maintain sufficient reserves in its debt service funds that will equal, or exceed, the reserve fund balances required by bond covenants.
4. Capital Projects Funds: Established on a project length basis and are used to account for revenues and expenditures during the construction/acquisition of major capital facilities and projects. These funds are financed mainly by borrowings and contributions, and are not used to accumulate resources for future capital improvements, and therefore will not be used to build up reserves.
5. Enterprise Funds: Business-type activities intended to recover all or significant portion of their costs through user fees and charges. Net assets are restricted to the fund's stated purpose.
6. Internal Service Funds: Established on a cost reimbursement basis and should only be used to account for the payments of the City's self-insurance programs. Revenues are received by charging the other funds and departments of the City. The City will maintain positive net assets in each of the internal service funds. When an internal service fund accumulates net assets greater than the actuarially required level, the City may transfer any or all of the excess to other operating funds, as deemed necessary.
7. Agency Funds: Account for the resources held by the City in a fiduciary capacity for individuals, governmental entities, and others.

***Fund Balance Classification:***

The accounting policies of the City consider restricted fund balance spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

***Annual Reporting and Periodic Review:***

Before completion of the City's Comprehensive Annual Financial Report, the Finance Director shall prepare a Fund Balance Status Report as part of the City's financial reporting process. At least every two years, the City Council will affirm or revise the Policy including the percentage range established by the components described herein (usually during the biennial budget process).

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## **Fund and Reserve Policies**

### **General Fund**

The City will maintain at the end of each fiscal year a General Fund Unassigned fund balance at a level that is equal to at least 20% of the fiscal year's General Fund-Operating Fund budget appropriation, as amended (controlling for one-time expenditures). In a year in which the City falls short a plan shall be identified to meet the 20% policy. Within this amount, City Council may set a portion aside under an Economic Anomaly Reserve. As of June 30, 2024, it is projected that \$12,884,270 of the City's Unassigned fund balance is set aside in the City's Economic Anomaly Reserve. Council approval is required before expending funds from the Economic Anomaly Reserve.

### **Internal Service Funds**

The City will maintain a Fleet Replacement Fund to provide for timely replacement of vehicles and related equipment. To the extent possible, the City will maintain a balance that is equivalent to the amortized replacement cost of each vehicle at a given point in its lifecycle, including anticipated growth in replacement costs. This will ensure the timely replacement of vehicles when they have met their useful life. Interest earnings and the sale of surplus equipment along with insurance recoveries will be credited to the Fleet Replacement Fund.

The City will maintain a Self-Insurance Fund to provide centralized funding for the City's workers compensation, litigated/non-litigated claims, and unemployment claims costs. To the extent possible, the City will set funds aside in a manner that will cover the annual costs of the fund as well as the actuarially determined liabilities of the City's workers' compensation and liability claims.

### **Enterprise Funds**

The City will maintain operating and capital reserves in these funds such that they are sufficient to cover the operating working capital needs, vehicle replacement requirements, and capital infrastructure investment needs. The levels will ensure that a proper state of good repair is maintained on the overall infrastructure (where applicable) to ensure reliable and dependable service for customers.

### **Cost Allocation Plan/Indirect Cost Rate**

The City of Torrance prepares a cost allocation plan annually to identify the General Fund costs associated with providing certain services to proprietary and special revenue fund programs (i.e. Section 8, Airport, Sanitation, Sewer, Water, Transit, Fleet, Self-Insurance), which are financed by user fees, grant funding, or other internal charges. These indirect charges reimburse the administration and overhead service provided by departments such as Council, City Manager, City Attorney, City

- b. Subsidy Policy: The City may want to make certain services more affordable and thereby more accessible to certain parts of the community such as youth and seniors.
  - c. Economic Incentives: Using pricing signals to encourage or discourage certain market activities.
  - d. Competitive Constraints: Competition for similar service offerings in the same market area such as recreation programs.
5. The City will set fees and user charges in the following manner:
- a. Enterprise Funds set fees at a level that fully supports the total direct and indirect costs of the activity as allowed under Proposition 218.
  - b. The Street Lighting Assessment Fund will endeavor to set fees at a level that fully supports the total direct and indirect costs of the activity as allowed under Proposition 218. Any costs not recovered through assessments will be paid by the General Fund.
  - c. Indirect costs will include the cost of annual depreciation and replacement of all capital assets.
- D. Special Revenue Funds:
- 1. Special Revenue Funds are set up to account for the proceeds of specific revenue sources that are legally restricted to cover expenditures for specified purposes.
  - 2. The City strives to maintain adequate reserves in these funds to provide sufficient cash flow for outstanding obligations.
  - 3. The City's General Fund may provide working capital for all special revenue funds in the event they are unable to meet their financial obligations or are required to spend funds first in order to be reimbursed by other outside agencies.

## 19. EXPENDITURE POLICIES

Expenditure Program: The budget process shall weigh all competing requests for City resources within expected fiscal constraints. Requests for new operating expenditures made outside the budget process shall be discouraged. New initiatives shall be financed by reallocating existing City resources to programs and services with the highest priorities or through new revenue sources.

## 20. FINANCIAL RESERVE POLICIES

- A. It is essential that the City maintain adequate levels of fund balance to mitigate current and future risk. Certain amounts of the fund balances may be specifically classified as fund balance reserves. This policy was established to identify and define city reserve levels and replenishing methods.
- B. Schedule: The City will annually produce a schedule of all fund surpluses and deficits, with projections of reserve requirements and a plan for the use of any

excess surplus for the current year in preparation of the CAFR. During each annual budget development, projections of reserve requirements will be reviewed.

C. Compliance: The City will comply with stated policies to analyze total reserves and surplus fund balances to ensure that the City's financial policies, as provided, do not inadvertently create adverse effects.

D. Reserve Levels:

1. General Fund Emergency Reserve

- a. In accordance with Governmental Finance Officers Association (GFOA) Best Practices on Budgeting the City shall strive to maintain a minimum emergency reserve of 17% of annual General Fund expenditures. This reserve will be classified as Committed Fund Balance. Committed Fund Balance is defined by GASB as amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority (City Council approval).
- b. The emergency reserve is intended to equate to approximately 60 days of operating and maintenance budget; however, the reserve may be increased upon Council action.
- c. The General Fund Emergency Reserve may only be used for the following purposes:
  - i. Cash Flow: To temporarily provide a liquidity cushion against variability and timing of expenditures and receipts.
  - ii. Emergencies: To provide funding in the event of emergencies, such as natural disasters (which may include but are not limited to, fires, earthquakes, or floods); other non-predictive emergencies; or the replacement of or a portion of City infrastructure should there be an unexpected failure.
- d. If this reserve is drawn down, a replenishment plan should be adopted by City Council at the time of draw down. The plan will include a fixed schedule of reserve replenishment.

2. Public Liability Reserve

- a. The City will maintain a reserve to fund annual paid, projected, incurred, but not reported, claims for liability and property insurance. This reserve shall be held in the Public Liability Fund in the amount of \$3.0 million.
- b. If this reserve is drawn down, the development and implementation of a replenishment plan will be put in place no later than the next fiscal year budget. The plan will include a fixed schedule of reserve replenishment.

3. Workers' Compensation Reserves

The City shall maintain prudent funding levels for the costs and liabilities of anticipated claims related to Workers' Compensation claims. This includes the funding of annual outstanding claims and estimated incurred, but not reported, claims. These funds shall be held in the Workers' Compensation Internal Service Fund.

4. Enterprise Funds

a. In general, the City will maintain fund balance reserve levels for the enterprise funds to provide:

- i. Timely replacement of rolling stock and other equipment and infrastructure repairs and/or replacement.
- ii. Adequate cash flow.
- iii. Funds for emergency purchases.
- iv. Maintenance of a ratio of net operating income to debt service requirements of at least 120 percent (1.20:1).

b. Specifically, the Water and Waste Water utilities shall strive to maintain an Operating Reserves target of 3 months (or 25%) of operating expenses and a Capital Reserves target equal to the ten year annual average of CIP project costs. The Operating Reserves will provide working capital, allow for unanticipated changes to budgeted expenses, and provide adequate cash flow during disasters or other emergencies. The Capital Reserves will assist in building financial stability to support a healthy replacement program going forward.

c. Enterprise Funds may establish a rate stabilization reserve separate from existing reserves. The rate stabilization reserve(s) could be implemented to help meet required debt coverage ratios.

- ii. The City may, but is not required to, make deposits into the rate stabilization reserve from any source of funds, including Net Revenues. The City may, but is not required to, withdraw for the from the rate stabilization reserve.
- iii. When transferring from Water and Wastewater Funds into the rate stabilization reserve, the revenues incurred during that given fiscal year cannot be counted towards the debt coverage factor. The amount transferred back into Water and/or Wastewater Funds shall be higher than what was transferred into the rate stabilization reserve to receive any credit within the same fiscal year.
- iv. Adjustments shall be applied annually at each fiscal year end.

## 21. FUND BALANCE POLICIES

A. Available Fund Balance Use:

The City will establish prudent use of fund balance to first meet reserve policies as set forth in the Financial Reserve Policies (Section 20 of this Policy). Available fund balance should then be used for (1) unfunded pension liabilities, (2) capital replacement and improvement projects, (3) retirement or refinancing of existing debt, (4) or one-time operational working capital.

B. GENERAL FUND UNASSIGNED BALANCE POLICIES

To ensure liquidity and modest operational reserves within the General Fund, the City shall strive to maintain a minimum unassigned fund balance of 13% and a maximum of 18%, based on the General Fund Operating Expenditures from the most recent Annual Comprehensive Finance Report. The following guidelines shall be used to determine the appropriate General Fund Unassigned Balance and the distribution of any monies above the appropriate balance.

1. When any of the City's CalPERS pension plans are funded at less than 75%, after considering the most recent annual CalPERS valuation report plus any balances the City has in a 115 Trust, the City shall maintain the General Fund unassigned balance at the minimum target of 13%. Any funds available above the minimum level shall be distributed in the following fashion:
  - a. 90% of available funds shall be used to support employee pension liabilities, either through contributions to a 115 Trust or through direct additional payments to CalPERS.
  - b. 10% shall be transferred to the General Capital Improvement Fund or to an internal service fund to support a capital project that is tied to providing general governmental services.
2. When any of the City's CalPERS pension plans are funded at less than 82.5% but greater than 75%, after considering the most recent annual CalPERS valuation report plus any balances the City has in a 115 Trust, the City shall strive to maintain the General Fund unassigned balance at no greater than 15%. Any funds available above 15% shall be distributed in the following fashion:
  - a. 70% of available funds shall be used to support employee pension liabilities, either through contributions to a 115 Trust or through direct additional payments to CalPERS.
  - b. 30% shall be transferred to the General Capital Improvement Fund or to an internal service fund to support a capital project that is tied to providing general governmental services.

3. When any of the City's CalPERS pension plans are funded at less than 90% but greater than 82.5%, after considering the most recent annual CalPERS valuation report plus any balances the City has in a 115 Trust, the City shall maintain the General Fund unassigned balance at no greater than 16.5%. Any funds available above 16.5% shall be distributed in the following fashion:
  - a. 50% of available funds shall be used to support employee pension liabilities, either through contributions to a 115 Trust or through direct additional payments to CalPERS.
  - b. 40% shall be transferred to the General Capital Improvement Fund or to an internal service fund to support a capital project that is tied to providing general governmental services.
  - c. The City Manager, or their designee, shall bring to City Council a plan to distribute the remaining 10% among the four funding priorities listed in Section 21.A.
4. When any of the City's CalPERS pension plans are funded at 90% or higher, after considering the most recent annual CalPERS valuation report plus any balances the City has in a 115 Trust, the City shall maintain the General Fund unassigned balance at no greater than 18%. Any funds available above 18% shall be distributed in the following fashion:
  - a. 50% shall be transferred to the General Capital Improvement Fund or to an internal service fund to support a capital project that is tied to providing general governmental services.

The City Manager, or their designee, shall bring to City Council a plan to distribute the remaining funds among the four funding priorities listed in Section 21.A.22.

#### **CAPITAL ASSET MANAGEMENT POLICIES**

- A. Capital Assets: The City's assets are capitalized at historical cost or estimated historical cost. Gifts or contributions of capital assets are recorded at fair market value when received.
  1. Assets include capital infrastructure (above and below ground), real property, buildings, equipment, information technology systems, and vehicles and trucks purchased by the City of Ventura or donated to the City. All vehicles and trucks purchased by the City are assigned to the Fleet Maintenance Fund.
  2. The City defines infrastructure as the basic physical assets that allow the City to function.
    - a. These assets include, but are not limited to, streets, water purification and distribution system, sewer collection and treatment system, park and recreation lands and improvement system, storm water



## Debt Service Funds and Capital Project Funds

The resources of the Debt Service Funds are legally designated for, and restricted to, payment of long-term debt. Capital Project Funds will be utilized to account for projects funded through debt. Our current reserve policy should be maintained.

### III

## WE WILL REQUIRE THAT ALL PROPRIETARY FUNDS BE SELF-SUPPORTING.

### Enterprise Funds

The Enterprise Funds or City districts should be supported by their rates and not subsidized by the General Fund other than special benefit zones designed to enhance public/private partnerships. We will assess charges against those funds at a reasonable rate for services provided by the General Government. The annual budget shall include a reserve for replacement costs.

### Internal Service Funds

The City will continue its current policy of funding the Internal Service Fund.

### IV

## WE WILL MAINTAIN AN APPROPRIATED GENERAL FUND EMERGENCY RESERVE EQUIVALENT TO A MINIMUM OF 35% OF THE GENERAL FUND BUDGET.

### General Fund

Unforeseen developments and crises may occur in any given budget year. Monies in this reserve can be used for myriad situations, including:

- Revenue shortfall;
- Increase in demand for a specific service;
- Legislative or judicial mandate to provide a new or expanded service or program;
- One-time Council approved expenditure;
- Unexpected increase in inflation (CPI);
- Favorable markets for capital expenditures;
- Major disasters such as fires, floods and earthquakes.

In an effort to ensure the continuance of sound financial management of public resources, we recommend a General Fund minimum Emergency Reserve balance of 35% of the General Fund expenditures budget. This reserve will cover a large number of situations. For example, such a reserve will allow the City to maintain a high level of quality service in times of a depressed economy. Additionally, the reserve allows the Council to have the fiscal latitude to finance a one-time expenditure or the ability to maintain our commitment to social programs while we develop a plan to reduce expenses.

The minimum 35% of the expenditures budget reserve figure is recommended specifically because we believe that this is the minimal level necessary to provide a measure of protection in the event that the General Fund experiences a major loss of revenue, or an unexpected major increase in expenditures. It is important to remember that such reserves would be available only as a temporary revenue source to be used while an orderly financial plan for cost reduction or revenue enhancement is developed. Generally speaking, a 35% expenditures budget reserve should ensure that there are enough funds to keep the City operating for at least four months.

### General Fund Emergency Reserves

Our policy sets a minimum target level based on a percentage of the General Fund expenditure budget. For example, if the General Fund expenditures budget for a year were \$100,000,000 (salaries and benefits, materials, services and supplies, transfers and capital outlay), we would have a target percentage of that amount (35%), or \$35,000,000, to be set aside and maintained. Emergency Reserves, if drawn down, will be replenished first out of operating surpluses, if any, and second out of unappropriated balances as an interim measure until expenditure levels versus reserves are brought into balance.

## Special Revenue Funds

Special Revenue Funds should have a balanced budget and are exempt from minimum reserves since these funds are programmed for specific purposes and can be subject to grantor requirements. Special Funds will be reviewed annually to ensure measures are taken to reduce any negative fund balance that maybe caused by timing differences in which expenditures are more than the revenue received.

## Debt Service Reserve Funds

We recommend that reserve levels be established as prescribed by the bond covenants adopted at the time of issuance of debt.

## Enterprise Funds

We recommend the continuation of reserve levels at 5% of the operating budget for these funds. This working capital reserve would provide sufficient time to allow the City to react and adopt a plan to deal with adverse economic circumstances. Additionally, a Capital Improvement and Replacement Reserve will be evaluated for each Operation and Enterprise.

## Internal Service Funds

We recommend the continuation of reserve levels which would allow the City to maintain this fund.

## V

**WE WILL ASSUME THAT NORMAL REVENUE INFLATION WILL GO TO PAY NORMAL INFLATION EXPENSES. ANY NEW OR EXPANDED PROGRAMS WILL BE REQUIRED TO IDENTIFY FUNDING SOURCES OR WILL BE OFFSET BY COST REDUCTIONS THROUGH CUTTING BACK OR ELIMINATING OTHER PROGRAMS.**

Normal revenue growth, i.e., increased amounts from existing sources, may not always increase at a rate equal to or faster than the expenses they support. As a result, we avoid using such revenue as start-up money for new projects or programs that have ongoing costs. Increases in service levels should be supported by new revenue sources or reallocation of existing resources. If normal revenue inflation does not keep up with expense inflation, we will decrease expenses or seek new revenues. If long-term revenues grow at a rate faster than expense inflation, we can consider expanding service levels accordingly.

## VI

**WE WILL MAINTAIN A LONG-RANGE FISCAL PERSPECTIVE THROUGH THE USE OF A FIVE-YEAR CAPITAL IMPROVEMENT PLAN AND REVENUE FORECAST.**

A long-range financial perspective is recommended to provide a more comprehensive and thorough overview of the Council's long-term financial goals. Components of this plan include the five-year Capital Improvement plan supported by reserve analysis. This approach will span a greater length of time than existing analytical practices and will be supported by historical data for comparative and projection information. This plan will allow Council to ensure that all assumptions with respect to revenues, expenditures, and fund balances are in line with its financial policies and goals.

The five-year Capital Improvement plan will incorporate all capital projects, improvements, and high-cost maintenance. High-cost maintenance will include the City's pavement maintenance master plan. This five-year Capital Improvement plan will be funded by a variety of means including cash basis and long-term debt. The City, by developing this plan, is making a commitment to reinvest in its infrastructure.

## VII

**MAJOR CAPITAL IMPROVEMENTS OR ACQUISITIONS WILL BE MADE USING LONG-TERM FINANCING METHODS, RATHER THAN OUT OF OPERATING REVENUE.**