CITY OF FULLERTON

STATEMENT OF FINANCIAL POLICIES

March 19, 2019

STATEMENT OF FINANCIAL POLICIES

SECTION 1. PURPOSE

To establish a comprehensive set of financial policies that incorporates best practices for government finance and will be instrumental in providing a strategic, long-term approach to financial management.

SECTION 2. STATEMENT OF POLICY

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

These financial policies will be reviewed regularly and updated to ensure that they remain current and incorporate best practices, as applicable. The City's comprehensive financial policies shall be in compliance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

SECTION 3. FINANCIAL POLICIES

1. Long-Term Financial Planning

a. The City shall develop and implement a long-range, strategic financial plan to achieve a balanced budget and secure financial stability. The plan will be updated as part of the budget development process and shall include forecasted expenditures and revenues of at least five (5) years for the general fund; however, a twenty (20) year forecast may be developed and maintained for the general fund.

b. All requests for City Council action shall include an analysis of the immediate and future fiscal impact of such action. No appropriation for new or expanded programs or staffing levels shall be approved without identifying the amount and source of available funds.

c. The City shall seek opportunities for organizational efficiencies in the delivery of service, such as regionalization and/or new technologies.

d. The City shall seek new and enhanced revenues to ensure a balanced and diverse revenue base and avoid reliance on one or few sources.

2. Operating Budget

2.1 General Policy

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

b. The City Manager shall bi-annually prepare and present a proposed budget to the City Council no later than the first regularly scheduled City Council meeting in June and the City Council shall adopt said budget no later than June 30 of each year. An annual budget will be prepared in lieu of the bi-annual budget during times of significant financial uncertainty and as recommended by the City Manager, and approved by the City Council.

c. It is the City's policy to adopt a balanced budget, where operating revenues are equal to, or exceed operating expenditures. In the event a balanced budget is not attainable and the cause of the imbalance is expected to last for no more than one year, the planned use of fund balance (reserves) to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of fund balance must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.

d. Any year end operating surpluses will revert to unassigned fund balances for use in maintaining fund balance levels set by policy and will be available for capital projects and/or "one-time only" General Fund expenditures.

e. Budget control is maintained at the Fund and Departmental level. The City Manager has the authority to approve appropriation transfers within the same department/fund. Transfers between fund/departments and amendments to the budget are approved by the City Council. Budget accountability rests primarily with the operating departments of the City and Department Heads are responsible for ensuring their department's expenditures remain within the budgeted appropriation.

f. Staff shall present a financial report to the City Council at least quarterly, including budget-to-actual information and year-end projections.

2.2 Revenues

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

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

c. One-time revenue should not be used to fund on-going expenditures. One-time revenue windfalls may include: sales of city-owned real estate, lump sum (net

present value) savings from debt restructuring, litigation settlement, unexpected revenues and other similar sources of revenue as designated by the City Council.

d. One-time revenues should generally be utilized and/or obligated by the City Council for the purpose of achieving appropriate progress towards identified priority policies, goals, and objectives.

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

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

g. Accounts receivable management and diligent oversight of collections from all revenue sources are imperative. Sound financial management principles include the establishment of an allowance for doubtful accounts. Efforts should be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they should be written-off from the financial statements.

2.3 Appropriations

a. The City shall, to the extent possible, pay for current year expenditures with current year revenues. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations lapse at fiscal year-end unless carried over by approval by the City Council.

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

c. In no case may total expenditures of a particular fund/department exceed that which is appropriated by the City Council without a budget amendment. The City Manager shall notify the City Council of the necessity to increase appropriations in any case where the over-expenditure within a particular fund/department will occur.

d. Budget appropriations transfers within a particular fund/department may be approved by the City Manager between major expenditure object categories (Salaries/Benefits, Maintenance/Support, and Capital Outlay), who may further delegate this authority in accordance with written procedures.

e. The City shall budget proprietary (enterprise and internal service) funds to ensure that appropriations do not exceed revenues and prevent the General Fund from subsidizing costs.

3. Capital Improvements

a. The City shall maintain a five-year Capital Improvement Plan (CIP) to address infrastructure, facilities, and equipment maintenance and replacement. The CIP shall be updated annually and shall identify available funding sources. Projects without available funding sources shall be identified as “unfunded”.

b. 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.

c. Capital improvement lifecycle costs will be coordinated with the development of 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.

d. Capital Improvement Projects are approved by the City Council and are budgeted at the project level. Budget transfers between projects are approved by the City Council. Budget transfers for subprojects are approved by the City Manager.

4. Fund Balances

4.1 General Fund

a. The City shall maintain a minimum General Fund balance of 10% of annual General Fund expenditures and shall strive to increase the level to 17% (approximately two months of expenditures). The 10% fund balance will be designated as “assigned” and will be designed to be used in the event of a significant financial emergency.

b. Should the General Fund balance fall below the assigned amount, the City will implement measures to restore the depleted fund balance in the following fiscal year.

c. The City should strive to establish and maintain additional assigned or committed fund balance for any anticipated future expenses that will require a certain level of steady funding source, i.e. unfunded future retiree medical cost and pension cost. It is prudent to set aside these funding needs each year in order to maintain the City’s financial stability.

4.2 Internal Service Funds

a. The Liability and Workers’ Compensation Funds will be maintained at a level which, together with purchased insurance policies, adequately indemnify the City’s property, liability, and health benefit risk. A qualified actuarial firm shall be retained on an annual basis to recommend appropriate funding levels, which will be approved by Council. The City shall endeavor to maintain funding levels at a minimum of the 70% confidence level.

b. It shall be the City’s goal to maintain all other Internal Service funds with a sufficient balance for the proper maintenance and replacement of vehicles, infrastructure and equipment (including technology and communication equipment). Rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement costs. Replacement costs will be based upon lifecycle financial analyses.

4.3 Enterprise Funds

a. All Enterprise Funds user fees will be examined annually to ensure that they recover all direct and indirect costs of service, provide for capital improvements and maintenance, and maintain adequate reserves. Charges shall be sufficient to avoid subsidy by the General Fund.

b. Capital Improvements funded from the Enterprise Funds shall be paid for in combination of "pay-as-you-go" financing and the use of long-term debt. The City shall periodically review its enterprise capital needs and establish capital spending plans that are appropriate and reflect a combination of debt and "pay-as-you-go," while attempting to keep our rates competitive with those in the surrounding area.

5. User Fees and Charges

a. All user fees and charges will be examined or adjusted regularly to determine the direct and indirect cost of service recovery rate. Where direct services to users can be measured, the City shall consider use of appropriate fees, charges or assessments to avoid subsidy by the General Fund.

b. User fees and charges for services shall be established at a level related to the full cost of providing such service except where the City Council has determined there is a public benefit to subsidize the service with tax based revenue. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council following public review.

6. Grant Management

a. Grant applications and programs will be prepared, submitted and operated in accordance with the City's adopted grants application policy.

b. The City shall actively pursue federal, state and other grant opportunities when deemed appropriate. Before accepting any grant, the City shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant. Prior to submission of the grant application, staff shall consult the Administrative Services Department to determine if sufficient funds are available for grant matches (if applicable).

c. Prior to spending, grant awards must be presented to the City Council for approval. The term of Grant funded positions should be clearly identified. It is mandatory to disclose if General Fund revenues will be needed to fund a position after the Grant expires.

d. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the

event of reduced grant funding, City resources may be substituted only after all program priorities and alternatives are considered.

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

7. Cash Management

a. Cash and investment programs will be maintained in accordance with California Government Code Section 53600 et seq. and the City's adopted investment policy and will ensure that proper controls and safeguards are maintained. Changes to the Investment Policy shall be approved by the Investment Advisory Committee and recommended to the City Council as needed.

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

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

8. Debt Issuance

a. The City will not use long-term debt to pay for on-going operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements or other one-time needs.

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

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

d. It is the City's goal to achieve and maintain at least an AA-/Aa3 credit rating from the major rating agencies. The City may pay the bond insurance which is considered as part of the rating, however, the rating agency does evaluate the structure of the bond to validate the bond rating. The factors that contribute to a high rating include the City's financial management practices, low debt levels, budgetary and fiscal controls, and accountability. To support this policy, the City will continue to maintain its position of full financial disclosure and proactive fiscal planning.

e. The City shall lease-purchase equipment if necessary because of funding availability, or if lease rates are more favorable than the rate attained from investment return. Equipment may also be leased if the lease terms compare favorably when reviewing the total life cycle cost of the equipment. In no case shall the City lease-purchase equipment whose useful life is not greater than the term of the lease.

9. Procurement

a. The City will procure goods and services in accordance all applicable City, state, and federal procurement requirements (where applicable).

b. Detailed procurement procedures should be created and maintained to ensure compliance with this policy and all applicable procurement requirements.

c. Public Works contracts shall be procured in accordance with the Uniform Public Construction Cost Accounting Act.

d. The City will obtain goods and services consistent with the quality needed for the proper operation of the various departments through the use of quotes and competitive bids whenever possible. It is the intent of the City to obtain the best value in procurement through an open and competitive environment.

e. Non-competitive procurements shall only be allowed under circumstances defined in the procurement procedures and/or by City, state, and federal requirements (where applicable).

f. The City Council must approve all purchases, contracts, and agreements of greater than $100,000. Items at or below $100,000 are approved by the City Manager, who may further delegate this authority in accordance with written procedures.