



## **CITY OF SAN CARLOS FINANCIAL POLICIES**

The following Financial Policies have been established to ensure that the City's finances are managed in a manner that will:

- Continue to provide for the delivery of quality services;
- Maintain and enhance service delivery as the community grows in accordance with the General Plan;
- Guarantee a balanced budget assuring that the City is always living within its means; and
- Establish reserves necessary to meet known and unknown future obligations.

To achieve these goals, the following Financial Policies are presented that include General Policies; Revenue Policies; Cost of Service Policies; Reserves and Fund Balance Policies; Expenditure and Budget Policies; Capital Improvement Policies; Fixed Assets and Infrastructure Asset Policies; Investment Policy and Debt Management Policy.

### **A. GENERAL POLICIES**

- 1) We will manage our financial assets in a sound and prudent manner.
- 2) We will maintain sound financial practices in accordance with State law.
- 3) We will direct the City's financial resources toward meeting our long-term goals as identified by Council through the Strategic Planning and Team Building Retreat process.
- 4) We will manage and develop programs to ensure our long-term ability to pay all the costs necessary to provide the level and quality of service required by our citizens.
- 5) We will maintain accounting systems in conformance with generally accepted accounting principles. The financial records will be audited annually by an independent auditing firm.
- 6) We will establish and maintain investment policies in accordance with State laws in which the major goals are safety and liquidity of investments, above yield.

### **B. REVENUE POLICIES**

- 1) We will strive to maintain a diversified and stable revenue base that is not overly dependent on any land use, major taxpayer, revenue type, restricted revenue, or external revenue.

- 2) We will aggressively pursue revenue collection and auditing to assure that moneys due are accurately received in a timely manner.
- 3) We will seek Federal and State grants and reimbursements for costs whenever possible.
- 4) We will investigate potential new revenue sources.
- 5) We will work proactively with the League of California Cities and local communities to monitor legislation that may impact the City financially.
- 6) We will avoid targeting revenues for specific purposes whenever possible.
- 7) We will impose user fees when appropriate.
- 8) We will adopt a user fee policy that establishes desired levels of cost recovery and determines the minimum frequency of user fee reviews.
- 9) We will maintain and further develop methods to track major revenue sources and evaluate financial trends.
- 10) We will establish methods to maximize the accuracy of revenue forecasts.
- 11) Revenues will be estimated using accepted standards and estimates provided by the State and other governmental agencies.

**C. COST OF SERVICES POLICIES**

- 1) Fees and charges for services will be determined based on the total direct and indirect cost of the activity, including administrative overhead and depreciation, where applicable. In certain circumstances, it may be appropriate to subsidize fees, where full cost recovery may be unrealistic.
- 2) We will recover the costs of new facilities and infrastructure necessitated by development, consistent with State law.
- 3) We will consider requiring large developments to prepare a fiscal analysis that will measure the direct and indirect costs of the project, as well as the benefits to the City.
- 4) Managers should be aware of the cost of services and propose the most effective methodology for providing those services.

**D. RESERVES AND FUND BALANCE POLICIES (per GASB 54)**

- 1) We will work toward establishing, dedicating and maintaining reserves annually to meet known and estimated future obligations. The hierarchy followed to deplete these reserves is as follows: first unassigned fund balance will be depleted; second assigned fund balances will be depleted at discretion of the City Manager; and lastly committed fund balances will be depleted in accordance with item 3a(ii) or 3b(ii) below, and formal action of the City Council.
- 2) The Government Finance Officers Association (GFOA) has issued their best practice in determining the appropriate level of unrestricted fund balance in the General Fund to be at a minimum of no less than two months of regular general fund operating revenues or expenses which equates to approximately 17%. The GFOA definition of unrestricted fund balance includes three general categories: committed fund balance, assigned fund balance and unassigned fund balance. For the City's purpose, we will include committed and assigned balances when reviewing the reserve percentages. The total of these two categories will be maintained at or above the GFOA best practice amount.

- 3) We will commit amounts of fund balance for specific purposes as determined by formal action of the City Council, which include but are not limited to committing fund balance reserves for the following:
  - a. Economic Uncertainties (as updated by Council June 13, 2016)
    - i. General Fund committed fund balance for Economic Uncertainties equal to a minimum of 12.5% of the General Fund expenditures with a target of increasing to 20% of General Fund expenditures.
    - ii. Once established, appropriations from the Economic Uncertainties fund balance commitment can only be made by formal action of the City Council. Generally, appropriations and access to these funds will be reserved for emergency situations. Examples of such emergencies include, but are not limited to: catastrophic disaster (declared by Governor); budgeted revenue taken by another government entity; or a more than 5% drop in projected revenue to the General Fund.
  - b. Strategic Property Acquisitions (as approved by Council October 25, 2010)
    - i. General Fund committed fund balance for Strategic Property Acquisitions accumulates funds from the proceeds of future sales of City properties, as directed by the City Manager or City Council.
    - ii. Once established, appropriations from the Strategic Property Acquisitions fund balance commitment can only be made by formal action of the City Council. Generally, appropriations and access to these funds will be reserved for funding strategic property acquisitions by the City.
  - c. Equipment and Vehicle Replacement Reserves
    - i. A Replacement Fund will be maintained as a separate fund for budgetary purposes to fund the replacement costs of existing non-sewer-related vehicles, major equipment and information technology items when they reach the end of their useful lives. The sewer-related items will be maintained in the Wastewater Fund. The Replacement Fund will be analyzed by staff at least annually as part of the budget update process, for changes in assets, useful lives, estimated replacement costs and appropriate funding levels. This fund is to be maintained at a level sufficient to fund 100% of the assets, based on estimated replacement costs and useful lives.
- 4) We will assign amounts of fund balance for specific purposes as determined by City Manager recommendation, as delegated by formal action of the City Council, which include but are not limited to assigning fund balance reserves for the following:
  - a. Liability insurance.
  - b. State Budget Contingencies.
  - c. Undesignated litigation.
  - d. Replacement of facilities and infrastructure.
  - e. Continuing appropriations (encumbrances and projects carried over from a prior year to the new fiscal year).
  - f. Debt service for future debt obligations/payments.

## **E. EXPENDITURE AND BUDGET POLICIES**

- 1) The operating budget will be prepared to fund current year expenditures with current year revenue. Surplus fund balances may be used to increase fund balance reserves, fund Capital Improvement Projects or be carried forward to fund future years' operating budgets when necessary to stabilize services and fund capital outlay.
- 2) We will assume normal inflationary growth in accordance with the consumer price index for operating expenses.
- 3) We will assume personnel costs based on current Memoranda of Understanding in effect at the time.
- 4) Any new or expanded programs will be required to identify new funding sources and/or off-setting reductions in expenditures in other programs.
- 5) We will deliver service in the most cost effective manner.
- 6) The budget will state the objectives of each of the operating programs.
- 7) The budget will fully account for and apportion all costs, fees and General Fund transfers associated with Special Revenue and Enterprise Funds.
- 8) All budget transfers require the approval of the City Manager or designee. However, transfers of appropriations that increase the total appropriations of a fund must be approved by the City Council.
- 9) We will maintain a long-range fiscal perspective through the use of a biennial operating budget, a five-year capital improvement program and a five-year financial forecast.
- 10) The biennial budget will be adopted by Resolution of the City Council by July 1<sup>st</sup> every other year.
- 11) A mid-cycle budget status report will be prepared and presented to the City Council in the spring of the first year of the budget that will include projections to year-end and any adjustments required for the second year of the biennial budget.
- 12) Staff will provide a written report to Council quarterly on the City's General Fund revenues and expenditures.

## **F. CAPITAL IMPROVEMENT POLICIES**

- 1) We will construct capital improvements in accordance with an adopted capital improvement program.
- 2) We will develop a five-year plan for capital improvements to be reviewed and, if necessary, updated as part of the budget process. Future capital expenditures will be projected for a five-year period based on changes in the community population, real estate development or replacement of infrastructure.
- 3) We will coordinate preparation of the Capital Improvement Budget with preparation of the Biennial Operating Budget. Future operating costs associated with new capital improvements will be projected and included in Operating Budget forecasts.
- 4) We will identify the estimated costs and potential funding sources for each proposed capital project before it is submitted to Council for approval.
- 5) We will attempt to determine the least costly financing method for all new projects.

## **G. FIXED ASSET AND INFRASTRUCTURE ASSET POLICIES**

- 1) We will capitalize all assets with a cost greater than \$5,000 and a useful life of more than one year.
- 2) All fixed assets and infrastructure assets are assigned an asset number that is recorded in the fixed asset software. Where applicable, the asset number is affixed or tagged to the asset.
- 3) Infrastructure related capital projects will be capitalized as construction in progress until completed. Costs to be capitalized include direct costs such as labor, materials and transportation, indirect costs such as engineering and construction management and ancillary costs such as construction period interest.
- 4) Repairs and maintenance to infrastructure assets will generally not be subject to capitalization unless the repair extends the useful life of the asset.
- 5) A physical inventory process will be initiated by staff when appropriate.

In addition, the City has three other financial policies that were reviewed and approved separately by the City Council. Both of these policies are available on the City's website and the Debt Management Policy can also be found in the Debt Section of the Budget book.

## **INVESTMENT POLICY**

The Investment Policy applies to all financial assets of the City as accounted for in the Comprehensive Annual Financial Report (CAFR). Statements outlined in the Investment Policy focus on the City's pooled funds, but will also apply to all other funds under the Administrative Services Director's span of control, unless specifically exempted by statute or ordinance. This policy is applicable, but not limited to, the following funds: General Fund; Sewer Fund; Capital Funds; Other Special Revenue Funds; Debt Service Funds; Internal Service Funds; Trust and Agency Funds; South Bayside Waste Management Authority; C/CAG; and any new fund created by the City Council, unless specifically exempted.

In accordance with California Government Code Section 53646(a)(2), the City Council reviews and approves this policy on an annual basis. The City's Investment Policy was last adopted by the City Council on August 24, 2020 via Resolution 2020-057.

## **DEBT MANAGEMENT POLICY AND DEBT DISCLOSURE PROCEDURES POLICY**

Effective January 1, 2017, California Government Code Section 8855(i) requires any issuer of public debt to provide to California Debt and Investment Advisory Commission (CDIAC) that they have adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those policies. The issuer's local debt policies must include (A) through (E), below:

- A. The purposes for which the debt proceeds may be used.
- B. The types of debt that may be issued.
- C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.

- D. Policy goals related to the issuer's planning goals and objectives.
- E. The internal control procedures that the issuer has implements, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

On January 22, 2018, the City Council adopted the Debt Management Policy via Resolution 2018-010. The new Debt Management Policy enhances the policy previously in place and follows the Government Finance Officers Association (GFOA) best practices guidelines. This policy will help ensure that City debt is issued and managed prudently to maintain a sound fiscal position.

On May 28, 2019, the City Council adopted the Debt Disclosure Procedure Policy via Resolution 2019-037. The new procedure policy formalized existing practices, including changes set by the Securities and Exchange Commission ("SEC"), SEC Rule 15c2-12, effective for securities issued on or after February 27, 2019 for the City and its related entities that meet the debt disclosure requirements.