CITY OF EL CENTRO
POLICY SATEMENT

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Category: Financial Management
Subject: Financial Policies

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I. PURPOSE

The purpose of this Policy Statement is to establish Financial Policies to ensure that the City's finances are managed in a manner which will, (i) continue to provide for the delivery of quality services, (ii) maintain and enhance service delivery as the community grows in accordance with the general plan, (iii) guarantee an annual balanced budget assuring that the City is always living within its means, and (iv) establish reserves necessary to meet known and unknown future obligations. To achieve these goals the Financial Policies include General Policies, Revenue Policies, Cost of Growth Policies, Reserve Policies, Expenditure and Budgeting Policies, Debt Policies, and Capital Improvement Policies.

II. GENERAL POLICIES

1. The City will manage its financial assets in a sound and prudent manner.
2. The City will maintain sound financial practices in accordance with State law and direct its financial resources toward meeting the City's long-term goals.
3. The City will develop and maintain Programs to ensure its long-term ability to pay all the costs necessary to provide the level and quality of service required by its citizens.
4. The City will maintain accounting systems in conformance with generally accepted accounting principles.
5. The City will establish and maintain investment policies in accordance with State laws that stress safety and liquidity over yield.

III. REVENUE POLICIES

1. The City will strive to maintain a diversified and stable revenue base that is not overly dependent on any land use, major taxpayer, revenue type or restricted revenue.
2. The City will aggressively pursue revenue collection and auditing to ensure that money due to the City is received in a timely manner.

3. The City will seek Federal and State grants and reimbursements for mandated costs whenever possible.
4. The City will investigate potential new revenue sources, particularly those which will not add to the tax burden of residents or local businesses.
5. The City will work proactively with the League of California Cities and local communities to monitor legislation that may impact the City financially.
6. The City will avoid targeting revenues for specific purposes whenever possible.
7. The City will establish user fees when appropriate and monitor all user fees and other charges so that the fees and charges are reflective of the cost of providing the services.
8. The City will periodically analyze actual revenue received.
9. The City will maintain and develop methods to track major revenue sources and evaluate financial trends.
10. The City will seek methods to continually improve the accuracy of revenue forecasts.

IV. COST OF GROWTH POLICIES

1. The City will recover the costs of new facilities and infrastructure necessitated by development, consistent with state law.
2. The City will require large developments to prepare a fiscal analysis which measures direct and indirect costs and benefits to the City.

V. RESERVE POLICIES

1. The City will establish, dedicate, and maintain reserves annually to meet known and estimated future obligations.
2. The City will seek to establish specific reserve accounts in the General Fund (Fund Balance) and Enterprise Funds (working capital) which include, but are not limited to, designated reserves for the following:
    a. A General Fund reserve for economic uncertainties of not less than 10% of expenditures
    b. Totally funded worker's compensation
    c. Liability insurance
    d. Value of accrued vacation and sick leave
    e. Estimated cost of retirees' medical payments
    f. Depreciation and replacement of vehicles and major equipment
    g. Major maintenance and renovations of building, parks, and landscaping
    h. The City will establish reserves for replacement of facilities and infrastructure
    i. The City will establish reserves for cash flow purposes

3. Pension Liability:
   a. The City's Pension Reserve Policy addresses pension liability by creating an additional funding mechanism for Fund 606 (see below). The Pension Reserve Policy is attached and incorporated as Exhibit "A."
   b. The City established Fund 606 in October, 2017 to accrue funds in a Section 115 Trust to strategically meet CalPERS unfunded pension liability challenges in conjunction with maintaining essential services. To that end, the City, in December, 2017, authorized an initial deposit into Fund 606 of $1,500,000.

VI. EXPENDITURE AND BUDGETING POLICIES

Overview

Budgeting is an integral part of managing any organization in that it is concerned with the translation of organizational goals and objectives into financial and human resource terms. A budget should be designed and prepared to direct the most efficient and prudent use of the organization's financial and human resources. The budget provides an opportunity to examine the composition and viability of the organization's programs and activities simultaneously in light of the available resources. It is a plan that establishes the spending authority for the City's programs and projects during the twelve-month budget period. The City's Annual Budget serves as the foundation for the City of El Centro's Financial Planning and Control.

Budgets are adopted annually, and prior to June 30 of each year the City Manager submits to the City Council a proposed operating budget for the Fiscal Year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted and prior to June 30, the budget is adopted by motion of the City Council.

Goals

The following are the City's goals when developing the organization budget:

1. Follow the City's Strategic Plan which identifies community needs for essential services, activities and programs.
2. Identify and appropriate the resources required to perform program activities and accomplish program objectives.
3. Deliver services in the most cost-effective manner, including utilizing the services of volunteers in areas where it is economically viable
4. State the objectives of operating programs and identify the services and resources being provided to accomplish the specified objectives.
5. Periodically update replacement and maintenance financing plans and incorporate them into the Budget.

Basis of Budgeting
It is the policy of the City of El Centro to prepare an annual budget using the accounting basis that is in conformance with generally accepted accounting principles.

The appropriated budget is prepared by:

- Fund (e.g. general fund)
- Function (e.g. Public Safety)
- Department (e.g. Police).
- Division (e.g. communication)

Balanced Budget
Operating budgets will be prepared to fund current year expenditures with current year revenue. However, surplus fund balances may be used to increase reserves, fund Capital Improvement Projects, or be carried forward to fund future year's operating budgets when necessary to stabilize services and fund capital outlay

Expenditure Categories
Departmental expenditures are limited to City Council appropriated expenditures in the following major categories:

Personnel Services
Supplies & Services
Capital Outlay

Monitoring Performance
It is the policy of the City of El Centro to monitor its financial performance by comparing and analyzing actual results with budgeted results. This function shall be performed periodically by the Finance Director.

Budgetary review

- Budget-to-actual comparisons are made on a monthly basis by the Finance Department.
- Budget-to-actual comparisons are presented for City Council review at mid-year and on an as needed basis.
- Budget-to-actual comparisons are provided in the Comprehensive annual financial report for each individual governmental fund, for which an appropriated annual budget has been adopted.

The City maintains an encumbrance accounting system of purchase orders as a means of accomplishing budgetary control. Purchase orders are reviewed to ensure that funds are available and that requests are properly authorized prior to being released to vendors.

Budget modifications (transfers)

- Department Directors may request transfers of appropriations within their departmental budgets
- Transfers of appropriations between departments require the authorization of the City Manager
- Any revision that increases the total appropriations of any fund by more than fifty thousand dollars ($50,000) must be approved by the City Council.
- Budget transfers required to hire additional permanent personnel require City Council approval

Term of Budget appropriations

All annual appropriations lapse at fiscal year- end.

Budget Development Procedures

The City's budget process shall begin in December/January with the Finance Department issuing to each City Department the calendar, goals, directives and budget worksheets for developing the budget for the next budget cycle.

The Finance Director shall gather the proposed budget information from all Department directors (and others with budgetary responsibilities). Individual departments shall be responsible for developing budgets for non-salary/benefit line items, potential employee overtime, supplies, services and capital. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explanation for all material fluctuations in budgeted amounts from prior years. All requests for additional personnel shall include a narrative explaining the need for an increase in staff potential duties for the new employee and expected salary. All requests for capital shall include a narrative explaining the reason for the need of the respective item and priority.

After appropriate department meetings and subsequent revisions, a compilation of all department budgets is prepared. The draft of the organization-wide budget, individual departments' budgets as well as the narratives (for new capital and additional personnel) is presented to the City Manager for discussion, revision, and initial approval.

Capital requests

All capital requests are evaluated to determine whether the capital item is needed to:

a) clear a safety issue

b) clear a legal requirement
c) improve customer service

Personnel requests
All request for additional staff is reviewed for viability based on the economic condition of the City.

At a public hearing the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Prior to July 1, the budget is adopted by motion of the City Council.

The Finance Department inputs the budget into the accounting system and establishes appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

VII. CAPITAL IMPROVEMENT POLICIES

1. The City will construct all capital improvements in accordance with an adopted capital improvement program.
2. The City will develop a five-year plan for capital improvements to be updated at least bi-annually. Future capital expenditures will be projected annually for a five-year period based on changes in the community population, real estate development or replacement of the infrastructure.
3. The City will coordinate preparation of the Capital Improvement Budget with preparation of the Operating Budget. Future operating costs associated with new capital improvements will be projected and included in Operating Budget Forecasts.
4. The City will identify the estimated costs and potential funding sources for each proposed capital project before it is submitted to Council for approval.
5. The City will attempt to determine the least costly financing method for all new projects.
6. The estimated cost of capital replacement for enterprise funds such as water and sewer will be updated at least every two years to ensure that rates and charges are covering the full cost of operating these programs.

VIII. DEBT MANAGEMENT POLICIES

The City of El Centro has developed this Debt Management Policy ("Debt Policy") to provide guidelines for the issuance of bonds and other forms of indebtedness to finance long-term capital improvements and equipment acquisition. While the issuance of debt is frequently an appropriate method of financing capital projects and major equipment acquisitions, careful monitoring of such issuances is required to preserve the City's credit strength and budget flexibility. This Debt policy will assist the City in determining the appropriate uses and structures of debt financing as well as establish sound debt administration guidelines.

Debt Management Objectives

The purpose of this debt management policy is to assist the City in pursuit of the following equally important objectives:

a. Limit the use of debt so as not to place a burden on the fiscal resources of the City and its taxpayers.
b. Achieve the lowest capital cost by minimizing debt service and issuance costs
c. Maintain access to cost-effective borrowing
d. Sustain and maintain the highest practical credit rating
e. Preserve future financial flexibility
f. Maintain a prudent level of financial risk

A. Capital Financing

1. The City will consider the use of debt financing only for one-time capital improvement projects, that cannot be financed from current revenues, and only under the following circumstances:
    a. When the project's useful life will exceed the term of the financing
    b. When project revenues or specific resources will be sufficient to service the long-term debt.
2. Debt financing will not be used for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term instruments such as revenue, tax or bond anticipation notes is excluded from this limitation.
3. The City will not use short term borrowing to support routine operations, provided however, that it may be used to meet temporary cash flow needs.
4. Whenever possible, the City will investigate the use of special assessment, revenue or other self-supporting bonds to limit the General Fund obligation for debt service payment.
5. The City will utilize inter-fund loans when possible to reduce the cost of financing capital improvements.
6. Capital improvements will be financed primarily through user fees, service charges, assessments, and/or special taxes.
7. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:
    a. Factors favoring *Pay-As-You-Go Financing*

        i. Current revenues and adequate fund balances are available or project phasing can be accomplished
        ii. Existing debt levels adversely affect the City's credit rating.
        iii. Market conditions are unstable or present difficulties in marketing.
    b. Factors favoring *Long Term Financing*
        i. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
        ii. The project securing the financing is of the type, which will support an investment grade credit rating.
        iii. Market conditions present favorable interest rates and demand for City financings.
        iv. A project is mandated by State or Federal requirements, and resources are insufficient or unavailable.
        v. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
        vi. The life of the project or asset to be financed is 10 years or longer.

B. Debt Management
1. The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.
2. An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.
3. The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.
4. The City will seek an investment grade rating of Baa/BBB or greater on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.
5. The City will monitor all forms of debt annually coincident with the City's Budget preparation and review process and report concerns and remedies, if needed, to the council.
6. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
7. The City will maintain strong communications with bond rating agencies about the City's financial condition and follow a policy of continued financial disclosure.

C. Debt Capacity

1. ***General Purpose Debt Capacity*** – The City will carefully monitor its levels of general-purpose debt. Because our general-purpose debt capacity is limited, it is important that we only use general purpose debt financing for high-priority projects where we cannot reasonably use other financing methods for two key reasons:
   i. Funds borrowed for a project today are not available to fund other projects tomorrow.
   ii. Funds committed for debt repayment today are not available to fund operations in the future.

In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Fund revenues; and in no case should they exceed 15%. Further, direct debt will not exceed 2% of assessed valuation.

2. ***Enterprise Fund Debt Capacity*** – The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

D. Professional Assistance

1. The City shall utilize the series of independent Financial Advisors and bond/disclosure Counsel on all debt financings. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net City debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The City Attorney's Office shall be responsible for selection of Bond Counsel and, in those circumstances where the City Attorney's Office determines it to be necessary or desirable, Disclosure Counsel. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost.

E. Refinancing

1. General Guidelines – periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancing's will be considered (within federal tax law constraints) under the following conditions:

   i. There is a net economic benefit

ii. It is needed to modernize covenants that are adversely affecting the City's financial position or operations
iii. The City wants to reduce the principal outstanding in order to achieve future debt service savings, and it has available working capital to do so from other sources.

2. Standards for Economic Savings – In general, refinancing for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.
   i. Refinancing that produces net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt.
   ii. Refinancing with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.