

**RESOLUTION NO. 4273/349**

**A JOINT RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SOLEDAD AND  
THE SOLEDAD REDEVELOPMENT AGENCY OF THE CITY OF SOLEDAD  
AMENDING THE CITY OF SOLEDAD BUDGET AND FISCAL POLICIES FOR  
FISCAL YEAR 2008-09**

**WHEREAS**, the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers Association (CSMFO) both require that Cities, Counties, and Special Districts adopt budget and fiscal policies as part of the annual budget process; and

**WHEREAS**, the budget and fiscal policies are presented to provide guidance and consistency in the decision-making for City management and the City Council in the preparation and adoption of the budget; and

**WHEREAS**, on January 16, 2008 City Council approved Resolution No. 4153 approving the budget and fiscal policies for fiscal year 2008-09; and

**WHEREAS**, pursuant to the aforesaid policies, the Working Capital/Operating Reserves currently equal 25% of the annual expenditures excluding debt service and capital expenditures; and

**WHEREAS**, the Council desires to amend the Working Capital/Operating Reserves Policy to equal 12.5% of the annual expenditures excluding debt service and capital expenditures.

**NOW THEREFORE, BE IT HEREBY RESOLVED** by the Soledad City Council and the Soledad Redevelopment Agency that the Fund Balance Reserve Policy hereto attached and marked "Exhibit A," is hereby adopted.

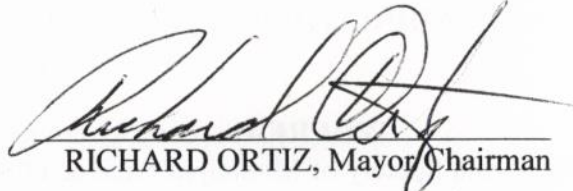
**PASSED AND ADOPTED** at a regular meeting of the City Council and the Soledad Redevelopment Agency duly held on the 6th day of August, 2007, by the following vote:

**AYES**, and in favor thereof, Councilmembers/Agencymembers: Martha Camacho, Juan Saavedra, Mayor/Chairman Richard Ortiz

**NOES**, Councilmembers/Agencymembers: Patricia Stephens, Mayor Pro Tem/Vice Chairman Christopher Bourke

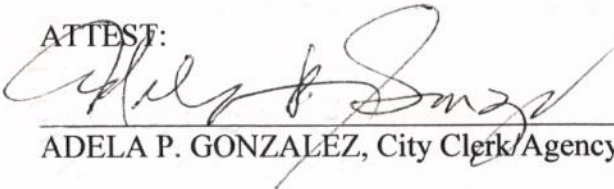
**ABSTAIN**, Councilmembers/Agencymembers:

**ABSENT**, Councilmembers/Agencymembers:



RICHARD ORTIZ, Mayor/Chairman

ATTEST:



ADELA P. GONZALEZ, City Clerk/Agency Clerk

## **City of Soledad Budget and Fiscal Policies**

1. Financial Reporting/Management Policies
2. Budget Policies
3. Revenue Policies
4. Capital Improvement Policies
5. Debt Policies
6. Reserve Policies

# Budget and Fiscal Policies

## 1. FINANCIAL REPORTING/MANAGEMENT POLICIES

Accounting practices shall conform to state law and to Generally Accepted Accounting Principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The City should apply all current standards issued by the Financial Accounting Standards Board (FASB) not in conflict with standards issued by the Governmental Accounting Standards Board.

### 1.1 Accounting, Auditing and Financial Reporting

- 1.1.1 All financial documents will be produced in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB) in addition to being in conformity with the accounting systems prescribed by the State Controller's office and the state regulations governing municipalities.
- 1.1.2 The City is to account for the Water, Wastewater, Sanitation, Taxi, and Garbage utilities as separate enterprise funds that are intended to be primarily self-supporting through user charges.
- 1.1.3 Special Revenue Funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purpose.
- 1.1.4 Internal Service Funds will have revenues (intra-City user charges, interest income, and other income) sufficient to meet operating expenses and capital outlay.
- 1.1.5 The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other special purpose funds.
- 1.1.6 The Redevelopment Agency will expend financial resources in accordance with laws/regulations applicable to redevelopment agencies.
- 1.1.7 The City will employ an independent accounting firm to perform an annual audit of the City's financial statements. The completed and accepted audit shall be available to all required and interested parties.
- 1.1.8 Procedures will be followed that will ensure that proper authorization has been obtained for all purchases of goods and services in accordance with the City's purchasing policy.

# Budget and Fiscal Policies

## 1.2 Cash Management

- 1.2.1. Idle cash in all accounts and funds will be kept invested to the benefit of the fund in amounts varying in their term to maturity, which will be consistent with the City's investment policy.
- 1.2.2. Procedures will be followed that will ensure that proper authorization has been obtained for all cash and investment transactions in accordance with the City's investment policy.
- 1.2.3. Cash reserves should be maintained and monitored as outlined in the operating cash reserves policies.

## 1.3 Asset Inventory

- 1.3.1. The Finance Department shall be accountable for tracking all City assets. Each Department shall be responsible for ensuring all such assets are used only for City purposes and notifying the Finance Department of any changes in use.
- 1.3.2. Fixed assets should be maintained in good operating condition and should be systematically replaced as they become obsolete or if the cost of repair is more than replacement value.
- 1.3.3. The Finance Department, on a yearly basis, will track and maintain asset records for all additions, replacements or retirements of assets. Appropriate actions will be taken to assure assets are safeguarded and maintained.
- 1.3.4. Fixed Asset Capitalization Policy – In accordance with the City's capitalization (accounting and reporting) policy, all fixed assets with a unit cost of over \$5,000 and a normal life of more than one year, will be included in the inventory.

## 2. BUDGET POLICIES

The City of Soledad shall strive to maintain financial stability over time. Financial stability is not only a prudent financial management goal; it can also minimize financial costs in the long-term (e.g. unnecessary borrowing). Above all, financial stability will provide the community with the confidence of knowing a strong, consistent management team is managing the City.

The approved annual budget document provides the spending limits by fund for the fiscal year. The City will follow administrative policy and state regulations on all expenditures.

# Budget and Fiscal Policies

Management and staff will follow the philosophy of cost control and responsible financial management.

- 2.1 The primary budget objective is to provide the highest possible level of service to the residents of the City of Soledad without impairing the City's sound financial condition. Continual efforts will be made to improve productivity, lower costs and enhance services.
- 2.2 The City will prepare an annual budget document each fiscal year (July 1 thru June 30) that provides a basic understanding of the City's planned spending for the coming fiscal year. Copies of the proposed and final budget will be made available to all interested parties and opportunities will be provided for public input prior to final adoption of the budget.
- 2.3 The budget will be based on a thorough analysis of revenues and expenditures anticipated for the fiscal year.
- 2.4 Laws and regulations limiting use of revenue sources shall be explicitly adhered to in allocating funds in the budget.
- 2.5 The City's annual budget will be presented for each fund, with a logical breakdown of programs and line-item detail. The budget document for each fund will also be presented for discussion and review by the City Council and the public. This document will focus on policy issues and will summarize expenditures at the personnel, operating and maintenance, project and capital improvement levels. Where practical, the City's annual budget will include standards of workload, efficiency and effectiveness.
- 2.6 Joint or common costs of the City shall be allocated between funds based upon a "fair" methodology that utilizes appropriate criteria (including, but not limited to: labor ratios, number of customers, asset value, work stations, square footage, FTE's, etc.). The specific allocation method for the joint/common cost should be the method that the City Manager deems to be most appropriate and equitable. The joint/common cost allocation shall be reviewed during the annual budget process.
- 2.7 City Management will endeavor to keep current expenditures less than current revenues. Current expenditures are defined as operating expenses, debt payments, project and capital improvement expenditures. City Management will strive to operate within the approved budgetary amounts to avoid deficit spending.

# Budget and Fiscal Policies

- 2.8 The Finance Director will maintain a budgetary control system to ensure adherence to the overall budget for each fund and will prepare regular reports comparing actual revenues and expenditures/expenses for each system.
- 2.9 The City Council will only establish programs where adequate funding is available to accomplish the program's objectives. All new operating programs or initiatives submitted for policy decision shall include sufficient information on anticipated annual operating costs, revenues, other pertinent fiscal information and their associated impacts.
- 2.10 At mid-year, the Finance Director shall prepare a comprehensive review of the revenues and expenditures to date in comparison to the existing budget. Projections of revenues and expenditures through the end of the fiscal year will be prepared and reviewed by management staff with a report to the City Council by February of the operating fiscal year.
- 2.11 To the extent possible, the operating budget will be prepared to fund current year expenditures with current year revenue. However, surplus fund balances may, in the City Council's discretion, 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.
- 2.12 The City will strive to avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets. Budget items requiring Council action include:
- a) Appropriation of reserves
  - b) Appropriation of any unanticipated revenues
  - c) Inter-fund loans/Transfers
  - d) Creation of new CIP projects and appropriation increases in existing CIP projects
  - e) Transfer(s) from one budgetary category to another within a fund. For example, personnel services budget category to capital projects budget category.
- 2.13 Budget items delegated to Department Heads: Within the budgeted category, line item transfers are the responsibility of the Department Heads, subject to approval of the City Manager. Transfers of line item budgets will be documented and reported by the Finance Director at the end of the fiscal year as required under GASB 34.

## 3. REVENUE POLICIES

Annual revenues shall be estimated during budget preparation. All revenue forecasts are to be based on the best information available at the time, as well as anticipated trends based on historical fiscal data.

## Budget and Fiscal Policies

- 3.1 The City will continue to maximize the availability of revenue through aggressive collection of receivables, prudent investments and proper timing of cash disbursements.
- 3.2 For the City to maximize revenue, all fees and charges for services shall be routinely reviewed to ensure that rates are equitable and, to the extent possible, cover the total cost of providing the particular service.
- 3.3 City management will estimate revenues using an objective, analytical process; in the case of assumption uncertainty, forecasts shall be conservative.
- 3.4 City management will seek federal and state grants and reimbursements for mandated costs whenever possible.
- 3.5 Interest earnings shall be allocated monthly to all funds based on month-end cash balances. Funds with negative cash balances shall not be credited with interest earnings or charged an interest expense.
- 3.6 Revenues of a limited or definite term will be used only for one-time expenditures. To the extent possible, the City will avoid using temporary revenues to fund ongoing and long-term program services.

### **4. CAPITAL IMPROVEMENT POLICY**

The capital improvement program will be developed separately and will consider mandated capital, growth related capital and renewal and replacement costs. Growth-related capital projects shall be clearly identified.

- 4.1 City staff will construct all capital improvements in accordance with infrastructure improvement needs or as indicated in the adopted capital improvement program.
- 4.2 All CIP projects will be reviewed annually to determine overall priority and funding availability.
- 4.3 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 the Operating Budget forecasts.
- 4.4 The City prefers a “pay as you go” strategy whenever possible. Where appropriate, capital improvements will be paid through current revenue/reserve sources.

## Budget and Fiscal Policies

- 4.5 The estimated cost of capital replacement will be identified in order that sufficient financial resources can be put in place to fund the improvement.
- 4.6 City staff will identify the estimated costs and potential funding sources for each proposed capital project before it is submitted to the City Council for approval.
- 4.7 City Management shall attempt to determine the least costly financing method for all new projects.
- 4.8 City staff shall actively pursue grant and other outside funding sources for capital improvement projects where appropriate.

### **5. DEBT POLICIES**

- 5.1 The City will limit the use of debt so as not to place a burden on the fiscal resources of the City and its customers.
- 5.2 The City will use debt financing when it is judged to be appropriate based on the long-term capital needs of the City, and the City's ability to repay the indebtedness has been evaluated in light of all sources and uses of income.
- 5.3 When capital projects are financed, the City will amortize the debt for a period not to exceed the expected useful life of the project.
- 5.4 The City will not use long-term debt for current operations.
- 5.5 The City will generally conduct debt financing on a competitive basis.
- 5.6 The City will strive to maintain the best possible bond rating on all debt issuances.
- 5.7 The City will comply with State and Federal regulations for each bond issue.
- 5.8 The City will at a minimum meet the debt service coverage requirements stated in the bond covenants.
- 5.9 The City will annually review the status of all outstanding and potential debt obligations during the Annual Budget Process.

# Budget and Fiscal Policies

## 6. RESERVE POLICIES

The City will establish, dedicate and maintain, as appropriate, reserves annually to meet known and estimated future obligations. If reserves are depleted, the reserves can be replenished in accordance with an approved plan adopted by the City Council.

- 6.1 *Working Capital/Operating Reserves* – Equal to 12.5% of total annual expenditures excluding debt service payments (principal and interest) and capital expenditures. This policy would apply to the General Fund, Water, Wastewater and RDA. Maintain \$50,000 working capital/operating reserve in JPA Garbage Fund. Maintain \$25,000 working capital/operating reserve in Garbage Fund. The working capital/operating reserves will be drawn down as the funding sources of last resort. **(Adopted by Joint Resolution No. 3895/299 of the Soledad City Council and Soledad Redevelopment Agency on October 18, 2006)(Amended by Joint Resolution No. 4273/349 of the Soledad City Council and Soledad Redevelopment Agency on August 6, 2008)**
- 6.2 *Capital Reserves* – Equal to 2% of total annual capital expenditures. This policy would apply to Water and Wastewater. Funding levels of working capital/operating and capital reserves will be reviewed during periods of economic stagnation and uncertainty to avoid reductions in operating service levels. Likewise, in periods of economic prosperity, funding levels of working capital/operating and capital reserves will be reviewed for possible increases above the recommended percentages. **(Adopted by Joint Resolution No. 3895/299 of the Soledad City Council and Soledad Redevelopment Agency on October 18, 2006)**
- 6.3 *Unreserved or Unrestricted Fund Balances* – Will be maintained at sufficient levels to provide adequate working capital and to accommodate required adjustments to other reserve accounts, including advances to other funds, deposits and prepaid items. Appropriations or use of funds from fund balances (reserved or unreserved) will require City Council/RDA action. Establishing of the aforementioned policies does not preclude to Council/RDA from setting aside additional funds for a specific project, program or capital item. **(Adopted by Joint Resolution No. 3895/299 of the Soledad City Council and Soledad Redevelopment Agency on October 18, 2006)**
- 6.4 *Wastewater Capital Reserve Fund* – As per resolution No. 4042, adopted by the City Council on July 18, 2007, establishing a Wastewater Capital Reserve Fund in accordance with the State Water Resources Control Board's requirements of the State Revolving Fund Loan Program.

The State Water Resources Control Board requires, as a condition of approval of the loan, the establishment of a Wastewater Capital Reserve Fund equal to ½ of 1 percent of the

## Budget and Fiscal Policies

total amount borrowed in the final loan for future expansion, major repair or replacement costs.

- 6.5 *Debt Service Reserves* – Reserves for debt service provides funds in accordance with debt issuance documents; i.e. official statements and trustee agreements. The amount of such reserves will be established in accordance with the legal covenants of the debt issue. It is common with bond issues to establish a reserve account to provide security for bondholders. The reserve account is to accumulate funds for payment of bond principal and interest.
- 6.5 Maintenance of minimum reserves should not, on its own, trigger the need for rate and/or fee adjustments. Rates and fees shall be periodically reviewed to ensure the City has adequate financial resources to provide the level of service required by the City Council/RDA.
- 6.6 Reserves at the end of the year shall remain in the specified funds, unless otherwise designated by the City Council/RDA.