CITY COUNCIL STUDY SESSION REPORT

MEETING DATE: JULY 12, 2011 ITEM NUMBER: 3

SUBJECT: PRELIMINARY FINANCIAL AND BUDGET POLICIES

DATE: JULY 6, 2011

FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING

PRESENTATION BY: BOBBY YOUNG, BUDGET & RESEARCH OFFICER

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RECOMMENDED ACTION:

It is recommended the City Council discuss the Preliminary Financial and Budget Policies and provide comments about adopting the policies at a future City Council meeting.

BACKGROUND:

The City's adopted municipal code is the main policy document of the City. It establishes policy and guidelines for most City operations. At times however, the City may deem it necessary to further define the scope of certain duties or responsibilities.

The largest financial responsibility of the City of Costa Mesa to its residents is the care of public funds. Therefore it is necessary to establish policies to define and maintain the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. The City currently operates under certain financial policies as seen in the appendix section of all preliminary, proposed and adopted budget documents.

ANALYSIS:

Given the recent economic decline, City Council and City Management expressed a need to review of the City's current Financial Policies to better understand, more clearly define or expand them to ensure the current and future fiscal health of the City. With that direction, staff began the process of reviewing the current policies and determining recommendations to provide to City Council. During the review, staff used many documents to gain perspective. Those documents included the Government Finance Officers Associations (GFOA) Best Management Practices for Budgeting and Fiscal Policy, as well as financial policies of a variety of other cities (both local and non-local).

Attachment A is a preliminary draft of a Financial Policies document for City Council to consider. This document should be considered a starting point. It takes into account current policies and provides other policies that may be worth establishing. There are a variety of policies that may be adopted, many that are already stated within the current adopted municipal code. Staff will continue to expand the Financial Policies document to incorporate all financial aspects of the City into one document.

At this time, staff is requesting comments on the attached draft document and the desire of City Council to adopt other policies at a future City Council meeting.

CONCLUSION:

From time to time, it is important for City Council to review City policies and determine the need or desire to alter such policies. Based on City Council direction, staff has begun a review of the City's current financial policies. Attachment A are some recommended policies to begin the review process. Some are the same as the current policies while others provide additional scope and clarity. Also, there are many financial policies included as part of the City's municipal code that staff will require more time to fully incorporate into one Financial Policies document. Staff is requesting comments on the attached draft document and the desire of City Council to adopt other policies at a future City Council meeting.

BOBBY YOUNG
Budget & Research Officer

ATTACHMENT: Attachment A – City of Costa Mesa Financial and Budget Policies document

City of Costa Mesa – Financial and Budget Policies

FINANCIAL AND BUDGET POLICIES OBJECTIVES

The largest financial responsibility of the City of Costa Mesa to its residents is the care of public funds. Financial policies shall be adopted by the City Council annually and will establish the framework for the overall fiscal planning and management of the City of Costa Mesa. The financial policies will maintain the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. By adhering to its stated policies, City Council and City Management will continually improve the City's fiscal stability and provide adequate funding of the services desired by the public.

FINANCIAL REPORTING

A. **Annual Reporting.** The City will prepare annual financial statements as follows:

1. In accordance with the City's municipal code requirements, the City will contract for an annual audit by a qualified independent certified public accountant. The City will strive for an unqualified (clean) auditors' opinion.
2. The City will use Generally Accepted Accounting Principles (GAAP) in preparing its annual financial statements, and will strive to meet the requirements of the Government Finance Officer Association (GFOA) Award for Excellence in Financial Reporting program.
3. The City will issue an audited Comprehensive Annual Financial Report (CAFR) within 180 days after year-end.

OPERATING BUDGET POLICIES

A. Balanced Budget. The City will adopt a balanced budget by June 30 of each year. A continuing appropriations resolution must be adopted by the City Council if the budget adoption will be delayed past June 30. A balanced budget means - operating revenues must fully cover operating expenditures, including debt service.

Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation, beginning fund balance can only be used to fund capital improvement plan projects, or other "one-time," non-recurring expenditures.

B. Budget Development. An annual base Operating Budget will be developed by verifying or conservatively projecting revenues and expenditures for the forthcoming fiscal year. City Management will adhere to the City's budget process and the Chief Executive Officer (CEO) will propose a budget within a reasonable amount of time for the City Council and public to review and discuss before being required to adopt.

C. Mid-Year Budget Reviews. The Council will formally review the City's fiscal condition no later than seven months after the beginning of each fiscal year, and amend appropriations if necessary.

D. Operating Carryover. Operating program appropriations not spent during the first fiscal year may be carried over for specific purposes into the second fiscal year with the approval of the CEO.

E. 5-year Forecast. The City will forecast its General Fund revenues and expenditures for each of the next five years and will update this forecast at least annually.

MINIMUM FUND BALANCE RESERVE AND CASH REQUIREMENTS

A. Minimum Fund Balance Reserve. The City will maintain a minimum unreserved (Committed, Assigned and Unassigned) fund balance as follows:

- As of June 30, 2012, the minimum unreserved (Committed, Assigned and Unassigned) fund balance will be 30% of the FY 11-12 General Fund Operating Budget - $28,425,045.
- As of June 30, 2017, the minimum unreserved (Committed, Assigned and Unassigned) fund balance will be 35% of the FY 16-17 General Fund Operating Budget.
- As of June 30, 2022, the minimum unreserved (Committed, Assigned and Unassigned) fund balance will be 40% of the FY 21-22 General Fund Operating Budget.

B. Emergency Fund Balance Reserve. The City will maintain a minimum committed fund balance in the General Fund of at least $14.125 million. As set for under City Ordinance 91-20, this "General Fund Emergency Reserve" shall be limited to the following purposes:

1. To provide required emergency funding as a result of a declared emergency.
2. To provide required funding for an unanticipated but urgent event threatening the public health, safety and welfare of the City of Costa Mesa.

This reserve may only be utilized by resolution of the City Council for the reasons stated above. This amount will be shown as committed fund balance on the City's Comprehensive Annual Financial Report (CAFR).

B. Minimum Cash Balance. On or before July 1, 2012, the City will maintain a minimum monthly cash balance (throughout the fiscal year) in the General Fund of at least $10 million. On or before July 1, 2013, the City will maintain a minimum monthly cash balance (throughout the fiscal year) in the General Fund of at least $15 million. The amount presented on the monthly Treasurer's Report will be used to determine the actual ending monthly cash balance.

GENERAL REVENUE MANAGEMENT

A. Diversified and Stable Base. The City will seek to maintain a diversified and stable revenue base to protect the City from short-term fluctuations in any one revenue source.

B. General Revenue Forecast. Revenue forecasts will be neither overly optimistic nor overly conservative. They will be as realistic as possible based on the best available information. Should economic downturns develop which could result in revenue shortfalls or fewer available resources, the City will make adjustments in anticipated expenditures to compensate.

C. One Time Revenues. It is the general policy of the City to use major one-time revenues to fund capital improvements or reserves. The use of one-time revenues to fund ongoing expenditures is strongly discouraged.

D. User Fees and Charges. User fees will be imposed to cover the cost of services provided for unique or narrow segments of the community. Fees may be set at levels sufficient to cover the entire cost of service delivery, or the service may be subsidized, as City Council deems necessary. Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

GENERAL EXPENDITURE MANAGEMENT

A. Appropriations Limitation. The Council will annually adopt a resolution establishing the City's appropriations limit calculated in accordance with Article XIII-B of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter approved amendments or state legislation that affect the City's appropriations limit.

B. Budgetary Control. The level of budget control exists at the program level. Annual budgets are set at the individual account level however Department's will be responsible for not exceeding the overall program budget. The Finance Department will provide monthly budget to actual reports to each department (Director, Manager or Budget Liaison) for review. It is the responsibility of each department to communicate to Finance when program budgets might be exceeded. At that time, the most appropriate action will be discussed to resolve any budget shortfalls.

CAPITAL BUDGET POLICIES

A. Percentage of General Fund Budget for Capital Expenditures. Beginning in FY 2013-2014, the City will allocate a minimum of five (5%) percent of the General Fund budget to capital expenditures.

DEBT MANAGEMENT

A. Debt Issuance. The City shall not issue long-term (exceeding twelve months) General Fund debt to support ongoing operating costs unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source). The term of the debt should not exceed the life of the asset being financed.