



# City of Aliso Viejo

## COUNCIL POLICY

SUBJECT	RES. NO.	POLICY NO.	EFF. DATE	PAGE
<b>MANAGEMENT AND BUDGET POLICIES</b>	<b>2005-056</b>	<b>300-3</b>	<b>11/16/2005 Rev 1/21/09</b>	<b>1 of 6</b>

### PURPOSE

The following City financial policies establish the framework for the City of Aliso Viejo's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. The financial policies also improve the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in City bond ratings and lower cost of capital.

### POLICY

#### 1. Operating Management Policies

- a. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements.
- b. All departments will notify the Director of Finance Services of all City transactions involving the receipt, transfer, appropriations and expenditure of funds prior to the commitment of such funds. All staff reports shall be submitted to the Financial Services Department for verification of financial information.

#### 2. Revenue Policies

- a. Revenues will not be dedicated for specific purposes, unless required by law or generally accepted accounting practices (GAAP). All non-restricted revenues will be deposited in the General Fund and appropriated by the budget process.
- b. Current revenues will fund current expenditures. The City will endeavor to maintain a diversified and stable revenue base to minimize the effects of economic fluctuations on revenue generation.
- c. Development impact fees, as permitted by state law for capital expenses attributable to new development, will be reviewed to ensure that such fees cover all direct and indirect development-related expenses.
- d. The City will review user fees and charges and attempt to set them at a level that fully supports the total direct and indirect cost of the activity as permitted by law.
- e. City staff will seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive



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benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City.

- f. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. In the event of reduced grant funding, programs financed with grant monies will be substituted with City resources only after all program priorities and alternatives are considered during the budget process.
- g. The City will follow a policy of collecting revenues that is aggressive and consistent, but sensitive to the circumstances. The City's goal for collections is to have no more than .5 of 1% of the total City revenue being adjusted for bad debts annually.

### 3. Budget Policies

- a. The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process are discouraged.
- b. Budget development will use strategic multi-year fiscal planning, conservative revenue forecasts. The process will include a diligent review of programs by staff, management, and City Council.
- c. Balanced revenue and expenditure forecasts will be prepared to examine the City's ability to absorb operating costs due to changes in the economy, service demands, and capital improvements. The forecast will be updated biennially, will focus on a three-year horizon, and will include a five-year outlook.
- d. All budgetary procedures will conform to state regulations and generally accepted accounting principles.
- e. The levels of budgetary authority to amend appropriations are as follows:
  - Department Heads can request to move appropriations from one object to another within the budget categories of operating expenditures, other services and supplies with the approval of the Director of Financial Services.
  - The Director of Financial Services will have the authority to transfer appropriations between objects, categories and departments within the same fund.
  - The City Manager will have the authority to transfer appropriations between funds.



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- City Council's approval will be required to amend revenue or appropriations, which result in a change to the adopted budget.

#### 4. Cash Management Policies

- a. Investments and cash management will be the responsibility of the City Treasurer.
- b. Cash and Investment programs will be maintained in accordance with the City's adopted investment policy and will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
- c. The City invests all idle cash as determined by analysis of anticipated cash flow needs. Specific emphasis will be placed on future cash requirements when selecting maturity dates to avoid forced liquidations and the potential corresponding loss of investment earnings.
- d. In order to maximize yields from the overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.
- e. All investments and evaluation of such investments shall be made with regard to the "prudent investor" standard. The standard to be used by investment officials shall be that of a "prudent person" and shall be applied in the context of managing all aspects of the City's investment portfolio. The prudent person standard is as follows: Investments will be made with the care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
- f. The investment officer, acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within a timely manner and appropriate action is taken to control adverse developments.
- g. The City Treasurer shall maintain a system of internal controls designed to ensure compliance with the Investment Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets.
- h. The City Treasurer will generate a monthly report to the City Manager and City Council in conformance with all State laws and City investment policy requirements.



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### 5. Capital Management Policies

- a. A five-year Capital Improvement Plan will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction, which results in a capitalized asset costing more than \$2,000 and having a useful (depreciable life) of five years or more.
- b. The capital improvement plan will include, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.
- c. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecast, matched to available revenue sources and included in 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. City assets shall be systematically and accurately recorded, properly classified and adequately documented in the Fixed Asset Accounting System. The City shall establish an internal control structure over all assets to provide reasonable assurance of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Refer to the Fixed Asset Policy and Procedure for guidelines.

### 6. Debt Management Policies

- a. A ratio of current assets to current liabilities of at least 2/1 will be maintained to ensure the City's ability to pay short-term obligations.
- b. Debt financing should not exceed the useful life of the infrastructure improvement or project.
- c. The City will not use long-term financing for any recurring purpose such as current operating and maintenance expenditures. Short-term debt instruments such as revenue, tax, or bond anticipation notes shall be excluded from this limitation.
- d. All bond issue proposals should include an analysis showing how the new issue, combined with any current debt, impacts the City's debt capacity and conformance with City policies.
- e. Community Facility District (CFD) Bonds shall be permitted only when there is a general City benefit. Refer to the Local Goals and Policies for the Use of the Mello-Roos Community Facilities Act of 1982. Exhibit A.



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- f. A debt service fund will be maintained to account for restricted revenues and debt payments, as well as any additional debt amounts deemed to be advisable and necessary for any public or municipal purposes.

### 7. Reserve Policies

- a. All fund designations and reserves will be evaluated annually for long-term adequacy and use requirements in conjunction with development of the City's financial forecasts.
- b. General Fund Stabilization Reserve of 15 percent of the annual General Fund operating budget will be maintained for unforeseen emergencies or catastrophic impacts to the City.
- c. The unappropriated fund balance in the General Fund will be maintained at a level sufficient to provide adequate working capital and to accommodate required adjustments to other reserve accounts, including the reserves for advances to other funds, deposits and prepaid items.
- d. A minimum fund balance of 25 percent of estimated Gas Tax revenues for the current year will be set aside as a reserve for street repair emergencies and other unanticipated traffic safety projects.
- e. Economic Uncertainty Reserve will be budgeted and appropriated annually to avoid the need for service level reductions in the event an economic downturn that causes revenues to be less than anticipated in the budget.
- f. Self-Insurance Reserves will be maintained at a level, which, together with purchased insurance policies, will adequately indemnify the City's property, liability, and health benefit risk.
- g. Contingency Reserves to be determined annually will be maintained to offset unanticipated revenue shortfalls and/or unexpected expenditure increases. Contingency reserves may also be used for unanticipated and/or inadequately budgeted events threatening the public health or safety. Use of contingency funds should be utilized only after all budget sources have been examined for available funds, and subject to City Council approval.

### 8. Financial Reporting Policies

- a. The City's accounting and financial reporting systems will be maintained in conformance 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).



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- b. An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the City's published Comprehensive Annual Financial Report (CAFR).
- c. The City's CAFR will be submitted to the Government Finance Officers Association and California Society of Municipal Finance Officers for the Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance-related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference.
- d. Financial systems will maintain internal controls to monitor revenues, expenditures, and program performance on an ongoing basis.
- e. The City will prepare periodic financial reports, for review by the City Council, to provide information on the status of the City's financial condition.

### 9. Use of Funds

The City's accounting system is organized and operated on a "fund basis" under which each fund is a distinct self-balancing accounting entity. A fund is "an independent fiscal and accounting entity used to record all financial transactions related to the specific purpose for which the fund was created." Funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, legal restrictions or limitations. The fund balance is the amount that remains in a fund at the end of the fiscal year after revenues have been received and expenditures have been paid. In the case of restricted special funds, it is not unusual for large one-time capital expenditures to exceed one-year revenues. This is because some of these funds take a number of years to build up a balance adequate to pay for large projects.

### 10. Asset Replacement Funds

An Improvement and Replacement Fund will be maintained as a separate fund for budgetary purposes, to fund the rehabilitation or replacement costs of existing City buildings, recreational facilities, furniture and fixtures, and equipment when they reach the end of their useful lives. Rehabilitation and replacement costs shall include design, construction and administration costs related to the projects. This fund will be categorized as a special revenue fund on the City's audited financial statements. The fund will be analyzed by staff every two years as part of the Five-Year Strategic Plan update process, for changes in assets, useful lives, estimated replacement costs, and appropriate funding level. This fund is to be maintained at a level sufficient to fund 50% of accumulated depreciation of the assets, based on estimated replacement costs, including design, construction and administration costs.