

# Financial Management Policies

## Introduction

The City of Beaumont is accountable to the community for the use of public dollars. Municipal resources will be used wisely to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. Financial management policies serve as the blueprint to achieve the fiscal stability and accountability required to meet the City's goals and objectives.

## Scope

The City's financial management policies apply to all personnel, departments, divisions, and offices of the City government as well as all associated accounting funds under the direct authority of the City of Beaumont. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private-Purpose Trust Funds and Agency Trust Funds. These financial management policies are also applicable to the City's blended component units, including the Beaumont Utility Authority, Beaumont Parking Authority, Beaumont Financing Authority and Beaumont Public Improvement Authority.

## Responsibility

The City Manager is ultimately responsible for the City's implementation and compliance with these policies, unless the City Council authorizes exceptions. Under the direction of the City Manager, the Finance Director will review, develop, and implement a system of processes and procedures to ensure compliance with these policies throughout the entire organization. The City Manager will work with the Finance Director to ensure these policies are updated on a timely basis.

## Financial Policy Goals

The objectives for comprehensive management policies are to:

4. Guide City Council and City Management decisions that have significant fiscal impact.
5. Support the planning for financial sustainability and long-term needs.
6. Maintain and protect City assets and infrastructure.
7. Set forth operating principles that minimize the financial risk in providing City services.
8. Optimize the efficiency and effectiveness of services to reduce the costs and improve service quality.
9. Employ balanced and fair revenue policies that provide adequate funding for desired programs.
10. Promote sound financial management by providing accurate and timely information on the City's financial condition to the City Council and community.

11. Maintain and enhance the City's credit ratings and prevent default on any municipal financial obligations.
12. Ensure the legal and ethical use of financial resources consistent with Council policy through an effective system of internal controls.
13. Promote cooperation and coordination within the City, and other governments and with the private sector in the financing and delivery of services.
14. Provide the appropriate level of accountability in the use of public resources.

### **Affiliated Agencies**

If agencies have been created through Council action, intergovernmental agreements, and state and federal laws, they should be managed with the same financial standards as City agencies. To protect the City's fiscal status and avoid an adverse effect on the City, affiliated agencies will be accountable for financial compliance and reporting standards as described in the City's Financial Management Policies. The City may audit financial records or performance data to ensure funds are spent in accordance with Council directions and policies. Affiliated agencies include, but are not limited to, agencies created by Council action, agencies with leadership appointed by the City Council and agencies that receive a majority of funds from the City.

### **Annual Budget**

The annual budget is the primary mechanism for the implementation of City Council policies and the achievement of their goals and objectives. The budget is a policy document, operations guide, financial plan and a communications device. It is the single most important means of setting spending policies and priorities of the City. It constitutes approval by the City Council of service levels and operating programs and provides resources to finance them. Expenditures must be kept within total appropriations for all Accounting Funds.

### **Budget Goals**

The City will develop and implement a budget process that will:

1. Make prudent use of public resources.
2. Include financial forecast information for resources, uses and ending fund balances to ensure that the City is planning adequately for current and future needs.
3. Provide adequate opportunity for public review and input.
4. Provide adequate opportunity for City Council review and deliberations.
5. Provide information on accomplishments and service levels vis-a-vis community needs.
6. Comply with City Code, State of California Local Budget Law, bond covenants and other promulgations.

The City Manager will develop and present a proposed City budget to the Mayor and City Council for consideration and adoption. The City Manager's proposed budget will opine on the short and long-term financial condition of the City, identify policy and financial and service issues, identify any use of one-time funds to support ongoing operations or key changes from previous years, identify funding requirements and sources of funds, provide supplemental information on programs and service areas, include budget and performance details for all City organizations and related recommendations to the City's vision and goals.

The Finance Department will issue guidelines and rules for the preparation and review of the department budget requests to the Mayor and City Council, including a proposed annual budget process and calendar. The proposed process and calendar will support community input and Council deliberations.

### **Budget Appropriations**

All Accounting Funds are included in the annual budget and all revenues and other financing sources are appropriated by the City Council each fiscal year in the annual budget. All Accounting Funds included in the City's annual audited financial statements are reviewed by the City's independent certified public accountants. The accounting basis in the City's annual budget is the same as the accounting basis used by the City's annual audited financial statements. Annual operating budgets in the General Fund and Enterprise Funds are carefully reviewed to ensure that budget appropriations are conservative because the City feels government units' function more efficiently under conservative budgets than where excess funds are made available.

### **Appropriations Limit**

Under Article XIII B of the California Constitution (the GANN Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules or other refund arrangements.

### **Proposition 218**

Proposition 218, approved by the voters in November 1996, regulates the City's ability to impose, increase and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 maybe subject to a protest hearing process. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the City's ability to finance the services for which the taxes, assessments and fees are imposed may be significantly impaired. Under Proposition 218:

1. Revenues derived from a property related fee must not exceed the funds required to provide the proportionate cost of the property related service. (The total cost limitation)
2. Revenues derived from the fee must not be used for any purpose other than for that which the fee is imposed. (The proportional cost limitation)
3. Fees may not be imposed for a service unless the services is actually used by, or immediately available to, the owner of the property subject to the fee. Fees based on potential or future use of a service are not permitted and stand-by charges must be classified as assessment subject to the ballot protest and proportionality requirements for assessments. (The future services prohibition)

4. No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners. (The general government service prohibition)

A public agency has the burden to prove compliance with these provisions if a fee is challenged in court.

### **Budget Control and Monitoring**

The City Council appropriations and control points will be at the department level within each accounting fund. These City Council adopted appropriations and employee counts cannot be exceeded without City Council approval. The City Manager will have the authority to amend budgets within a departmental appropriation but changes in employee counts must be approved by the City Council. The Finance Department will maintain a system of tools for departments to manage their budgets and for financial monitoring and control of the City's budget during the fiscal year. This system will provide the departments, Mayor and City Council with information on revenue, expenditures and budget performance at both the department and fund level. The system will include provisions for amending the budget during the year in order to comply with this policy and State of California budgetary statutes.

The City Manager, through the Finance Department, will periodically report to the City Council financial status reports on revenues and expenditures to date, and the estimated year-end fund balances. The City Manager will, on a quarterly basis, review all City financial operations, report to Council on financial results and recommend financial actions necessary to meet the adopted budget's financial planning goals.

The mid-year budget monitoring report, audited financial statements, audit opinion and management letter will be presented to the Mayor and City Council for review and discussion as an action item on a *City Council agenda*. Any additional *financial* resources, whether additional projected revenues produced them or higher beginning fund balances, should be set aside for the next budget cycle. Any negative financial results should be highlighted, and a proposed plan of action should be provided to the Mayor and City Council for review and approval. General Fund discretionary resources that exceed budgeted amounts should be added to the General Fund contingency, except for funds allocated to infrastructure maintenance or replacement.

### **Review Council Actions**

The City Manager, through the Finance Department, will review any proposed City Council actions. The objective of these reviews will be to ensure compliance with the City's budget direction and identify financial and service issues for the Council. The Finance Department will identify financial and service issues for the City Council. The Finance Department will establish and issue procedures and forms to submit fiscal impact statements for proposed Council actions.

### **Additional Operating Budget Direction**

1. **Balanced Budget.** Financial resources shall be equal to or exceed expenditures in each accounting fund. Each City fund must identify on-going financial resources that at least match expected ongoing requirements. One-time resources and non-recurring ending balances may either be applied to reserves or used to fund one-time expenditures; they will not be used to fund ongoing programs, except as provided in Section 2. Each year the Finance Director will provide the City Council with the amount of discretionary revenue that is estimated to be non-recurring for the

General Fund.

2. **One-time Funds.** One-time funds can be used for ongoing expenditures only as a plan for:
  - (1) Transitioning to a permanent funding source,
  - (2) leading to organized program elimination, or
  - (3) as part of verifiable plan to address an existing recessionary period. Scenario 3 should be documented in the City's multi-year financial forecast.
3. **General Discretionary Revenues.** Unless otherwise explicitly stated by the Mayor and City Council, the City will not dedicate discretionary revenues for specific purposes in the General Fund. This will preserve the ability of the Mayor and Council to determine the best use of available revenues to meet changing service requirements.
4. **Transfers Between Funds.** A schedule of all transfers between funds will be identified, explained, and appropriated in the Proposed and Adopted Budget. Any additional budget transfers between accounting funds will require City Council action.
5. **Efficiency and Effectiveness.** The City will optimize the efficiency and effectiveness of its services to reduce costs and improve service quality. The City will coordinate its service delivery with other applicable public and private service providers and seek the most cost-effective method for service delivery.
6. **Self-Supporting/Full Cost Recovery Basis.** The City will attempt to recover the costs of services providing a private benefit to users through the imposition of user fees and charges. The fees and charges will be based on cost accounting standards consistent with state or federal law when applicable. Fees and charges should include full costs i.e., direct, indirect, depreciation, interest charges, etc. and the Finance Director will ensure an annual user fee and charges schedule is regularly updated and approved by Council.
7. **Recovery of Indirect or Overhead Costs.** The City will endeavor to recover indirect or overhead costs through their allocation towards the calculation of user fees and charges or inter-fund charge. However, a reasonable cost allocation methodology must be used consistent with Generally Accepted Accounting Principles (GAAP).
8. **Contingencies.** The City will budget a contingency account for each operating fund adequate to address reasonable but unforeseen requirements within the fiscal year.
9. **Unexpended Appropriations at the End of the Fiscal Year.** Unexpended appropriations cannot be used in subsequent fiscal years unless re-appropriated by the City Council.

## Fund Balances

### 1. Definition and Purpose.

**A. Governmental Funds.** Accountants employ the term "Fund Balance" to describe the net assets of Governmental Funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of Governmental Funds calculated on a government's budgetary basis. In both cases, "Fund Balance" is intended to serve as a measure of the financial resources available in a Governmental Fund. It is essential the City of Beaumont maintain adequate levels of fund balance to provide working capital,

mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are also a crucial consideration in long-term financial planning.

**B. Enterprise and Fiduciary Funds.** The “Cash and Investment Fund Balance” is that portion of fund equity that can be used for operating, capital and debt service expenditures, and is intended to serve as a measure of the financial resources available in an Enterprise Fund. It is essential the City of Beaumont maintain adequate levels of cash and investment fund balances to provide working capital, mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable utility rates. Cash and investment fund balance levels are also a crucial consideration in long-term financial planning.

Credit rating agencies carefully monitor levels of fund balance in a government’s General Fund to evaluate a government’s continued creditworthiness. Those interested primarily in a government’s creditworthiness or economic conditions are likely to favor higher levels of fund balance. Opposing pressures often come from employee unions, taxpayers, and citizens’ groups, which may view high levels of fund balance as “excessive.”

## 2. Classification of Governmental Fund Balances.

Governmental Fund balances are classified into the following categories:

**A. Nonspendable Fund Balances.** Non-Spendable Fund Balances consist of items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

**B. Restricted Fund Balances.** Restricted Fund Balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributions, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

**C. Committed Fund Balances.** Committed Fund Balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body through City Council resolutions, etc., and that remain binding unless removed in the same manner.

**D. Assigned Fund Balances.** Assigned Fund Balances encompass the portion of net fund resources reflecting the government’s intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the City Manager for that purpose.

**E. Unassigned Fund Balances.** This category is for any balances that have no restrictions placed upon them.

## 3. Fund Balance Policy Considerations.

In establishing a policy governing the level of unrestricted (unreserved) fund balance in governmental funds and cash and investment fund balance in its Enterprise Funds, the City Council

takes into consideration the following factors:

- A. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted (unreserved) fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- B. The availability of resources in other funds as well as the potential drain upon General Fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of unrestricted (unreserved) fund balance needed in the General Fund, just as deficits in other funds may require that a higher level of unrestricted (unreserved) fund balance be maintained in the General Fund.
- C. Liquidity (i.e., disparity between financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained.)
- D. Designations (i.e., the City of Beaumont may wish to maintain higher levels of Unrestricted (unreserved) fund balance to compensate for any portion of unrestricted (unreserved) fund balance already designated for a specific purpose).

#### 4. Fund Balance Policies.

**A. General Fund Reserves or Ending Fund Balance Policy.** Working Capital Reserve Requirement to remain at 16% of the operating budget. This allows sufficient cash flow throughout the year when revenue receipts are not timely to expenditures. Budget Stabilization Reserve set at \$5M to provide city staff time to address an economic downturn without having to dip into the Working Capital Reserve. Emergency Disaster Reserve set at \$1M to provide funds that may not be available within the budget to address unforeseen emergency disaster brought upon by nature or human. NOTE: The Government Finance Officers Association recommends, at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.

**B. Enterprise Reserves or Ending Fund Balance.** The City will show adequate progress towards increasing Enterprise Fund reserves or Unassigned Fund Balance ultimately to 25% of the Enterprise Fund Balance. The City has established a Repair and Replace Reserve. Any funds remaining from a budget year will first address any shortfalls in the operating reserve requirement. Any surplus funds over the operating requirement will be placed in the Repair and Replace fund to meet ongoing capital maintenance needs.

These fund balances will be maintained for the following purposes:

- a) Provide sufficient working capital to meeting daily cash needs to avoid using short-term debt instruments.
- b) Provide a reserve to absorb emergency expenditures caused by natural disasters such as fire, flood, or earthquake.
- c) Cover any unanticipated deficit resulting from a shortfall in actual revenues in a given budget year or unanticipated cuts by the State Legislature and Governor of City revenues.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses unrestricted resources in the following order: committed, assigned, and unassigned.

When the unrestricted (unreserved) fund balance of the General Fund exceeds the amount needed for the above purposes, the City Manager through the Finance Department will bring an item to Council for options of use that meet the strategic goals that have been established within the budget process.

Restricted (reserved) fund balances in the General Fund, Special Revenue Funds, and Capital Projects Funds will be separated out and identified in the City's accounting records, financial statements, budgets, and audit reports. This same policy is followed with respect to restricted amounts in the cash and investment balances of the Enterprise Funds. The purpose of this policy is to show the City Council, staff, and the public what funds in these balances are unrestricted and what funds are to be used for specific purposes.

## **Fund Management**

Creation of new funds or elimination of existing funds shall be done by the Finance Department or City Council action. A review and report by the Finance Department will be required prior to City Council action. The Finance Department will conduct an annual review and, as part of the budget, explain the purpose of each fund and assess if each fund is needed.

Departments or programs that are primarily funded by user fees and charges should be segregated into their own funds or fund accounts to assist in cost accounting and ensuring fees and charges are recovering an adequate portion of costs.

## **Enterprise Funds**

Budgets for Enterprise Funds will include the required level of debt service coverage for the fund and a description of the relationship between operating *budgets* and construction *budgets*.

## **Financial Planning Goals**

The City of Beaumont will prepare long-range financial plans to guide the Mayor and City Council in adopting the City budget and to assist the City Council in ensuring the delivery of needed services through inevitable economic cycles. The financial plans will help the Mayor, Council and community evaluate the financial impact of all programs within the regional and local economic conditions. The plans will also assist in coordinating funding needs among enterprise, special revenue, and General Fund functions.

Financial planning and budgeting will be based on the following principles:

1. Revenue estimates will be prepared on a conservative basis to minimize the possibility that economic fluctuations could surprise the City and jeopardize ongoing service delivery during the fiscal year.
2. Expenditure estimates will anticipate needs that are reasonably predictable.



3. Forecasts will rely on a common set of basic economic assumptions that will be established, updated, and distributed by the Finance Department.

## **Financial Plans and Forecasts**

Prior to the initiation of the annual budget process, the Finance Department will prepare an annual City financial assessment report. This report will include a comprehensive overview of the City's financial condition.

Five-year financial forecasts and plans will be prepared annually for the General Fund, General Fund departments, major Enterprise Funds, Special Revenue Funds, and other funds that materially affect the City. Plans will be based on current service levels and funding sources, as well as anticipated changes to service levels and funding. If appropriate, the plans will identify additional resources needed to continue current service levels or identified service adjustments.

General Fund departments will forecast and monitor their own revenues and expenditures. The Finance Department will assist departments in developing appropriate systems, will retain fiscal oversight responsibility for the entire City and will publish regular financial status reports on revenues and expenditures.

Enterprise Fund and Special Revenue Fund forecasts will identify any impact on rates. The forecasts will discuss how standards for debt service coverage and operating reserves are established and maintained. Departments that manage Enterprise and Special Revenue Funds will prepare and coordinate with the Finance Department on the presentation of regular status reports on revenues and expenditures.

## **Capital and Other Asset Plans**

The departments that are responsible for major infrastructure and utility improvements will complete 10 or 20-year master plans to support growth and replacement needs. The master plans must support and reconcile with the City's major planning documents.

The City will annually prepare a Citywide five-year Capital Improvements Plan (CIP) that provides the Mayor and City Council with an overview of the condition of its infrastructure. It should include prioritized department needs for capital replacement, additions, and major maintenance, along with the potential impacts of not funding certain projects. The plan will include estimated project costs and operating costs and will identify funding sources. Staff will ensure the proposed funding is in fact an eligible source under state law. It will highlight what projects are fully funded and which ones are not.

The City will annually adopt a Capital Budget that will include estimated resources and capital expenditures based on the first year of the current Capital Improvements Plan. Other major asset categories critical to service delivery such as facilities, fleet and technology will also have master plans to ensure their timely replacement.

The City will identify and include full costs of future maintenance needs and operating costs of new capital improvements and equipment prior to funding as part of the Capital Budget.

In general, all assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs. A high priority will be placed on maintenance where deferring maintenance will result in greater costs to restore or replace neglected facilities such as roads. Each

department with major capital assets will maintain accurate information on the condition and lifespan of its major assets to assist in long-term planning, such as a pavement management index. Each department with major capital assets will develop replacement costs data for major assets to assist in City asset management and investment decisions.

Maintenance and operations of major capital assets should be given priority over acquisition of new assets.

## Revenue Goals

1. The City will maximize and diversify its revenue base to raise sufficient revenue to support essential City services and to maintain services during periods of declining economic activity. The City's overall revenue structure will be designed to recapture some of the financial benefits resulting from City economic and community development investments. Revenue collection efforts that produce positive net income for City service delivery will be the highest budget priority.
2. Departments that primarily or exclusively operate with non-General Fund revenue will minimize reliance on General Fund support for discrete programs that are not supported with fees.

## Revenue Collections

The City will use all cost-effective means available to collect revenues due.

The Finance Department is responsible for ensuring all Accounts Receivable are properly pursued and accounted for, which includes an aging of each receivable and the development of a bad debt policy. The Finance Department will ensure, on an annual basis, that a report is provided to the City Council on the condition of the City's collection efforts and any accounts receivable and the development of a bad debt policy. The Finance Department will ensure, on an annual basis, that a report is provided to Council on the condition of the City's collection efforts and whether any accounts receivable should be written off.

The Mayor and City Council must approve any fee waivers.

## Development Impact Fee Revenues

The City seeks to recover some of the cost of growth through development impact fees on new developments in the City of Beaumont. As Beaumont's population grows, the demand for the expansion of public infrastructure and the purchase of capital equipment needed to serve new development in the City increases.

State law allows (State Mitigation Fee Act, Government Code 66000 et. seq.) and fairness dictates that the new residents creating the need for expanded infrastructure and additional equipment capital costs should make a contribution to their acquisition in the form of development impact fees. Development impact fees are collected by the City of Beaumont for the expansion of public infrastructure and facilities and the purchase of capital equipment needed for new development in the City. All development impact fees are deposited in separate special revenue and expenditure accounts in a separate Special Revenue Fund specifically designated for the particular development impact fee. Development impact fees can only be spent for capital purchases due to growth and are not used for salary or maintenance or operation expenditures.

[California Government Code Section 65940.1 and Section 66016.5 require cities, counties, and special districts to update development impact fee information which includes:](#)

Nexus Studies – Local agencies must prepare and adopt an impact fee nexus study to establish the legal and policy basis for adopting or increasing development impact fees. Nexus studies must be updated at least once every eight years. The City of Beaumont will make all attempts to update the nexus study at least every five-years.

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## Unfunded Mandates

The City will oppose state or federal actions that mandate expenditures that the Mayor and City Council consider unnecessary and unfunded. The City will pursue intergovernmental funding to support the incremental cost of such mandates.

## Debt Management

Public borrowing through lease-purchase agreements, general obligation (GO) bonds, revenue bonds, certificates of participation (COP) or other legal debt instruments may be in the public's best interest. However, the City will pursue policies that will not saddle the City and its residents with excessive public debt and will carefully scrutinize any public borrowing proposals. Therefore, the City Council, City Manager or other staff members must use debt in a wise and judicious manner. Where public borrowing is considered appropriate by the City Council. It will be done in compliance with California law and in accordance with the following policies:

1. Debt is limited to equipment purchases and major capital projects. It is not used for general operating expenses. It is the policy of the City to maintain cash balances at a sufficient level for general operating costs (those items normally funded in the City's annual operating budget and having a useful life of less than one year). Short-term securities may be issued in cases where the City's normal cash flow has been disrupted as a result of natural disaster or unexpected delays in the receipt of federal or state revenues.
2. The maturity date for any debt does not exceed the reasonable expected useful life of the equipment or capital improvement being financed.
3. When practical, the City will develop, authorize, and issue revenue, special fee or other self-supporting debt instruments instead of incurring long term obligations payable from General Fund revenues.
4. Coverage for revenue bonds or special fee debt instruments shall be determined based on advice of the City's Municipal Advisor, Bond Counsel and Underwriters in a manner to best align with the City's financing goals of achieving the lowest cost of borrowing, financial flexibility and security for bond owners.
5. The City will maintain good communication with the public and City Council regarding its financial condition.
6. The City will regularly evaluate its adherence to its debt policies. The City will promote effective communications with bond rating agencies and others in the bond marketplace based on full disclosure.
7. The City will adhere to its Beaumont amended and restated disclosure procedures.

To the extent feasible, debt issuances will be packaged and planned to minimize issuance fees and interest rates.

## **Risk Management**

The City will maintain adequate levels of insurance and implement a risk management program for public liability, workers' compensation, and related exposures. The program will emphasize avoidance of risk whenever possible, funding for losses which cannot be avoided and transfer of risk to third parties whenever appropriate.

The risk management program will include the systematic and continuous identification of loss perils and exposures, the analysis of these in terms of frequency and severity probabilities, the appropriate application of sound risk control procedures and the financing of potential claims and administration costs within the City budget.

The City will use outside claims administrators.

As part of the annual budget process, staff will segregate and report to the Mayor and City Council the past results of the risk management program, its relative financial status and plans for the future. Resources will be established to fund open claims liabilities, incurred but not reported (IBNR) claims and a catastrophic reserve or insurance as annual recommended by an independent actuary, or as authorized by Generally Accepted Accounting Principles (GAAP).

## **Interest Earnings**

The Finance Department will assign interest earnings and expenses to the appropriate accounting fund based on available cash balances consistent with generally accepted accounting principles (GAAP). Investment policies will be reviewed annually and brought to the Mayor and Council for approval.

## **Independent Audits**

Staff will regularly use competitive processes to select and rotate new independent auditors that will be responsible for the annual audit of financial records in accordance with state and federal guidelines and generally accepted auditing standards.

The Comprehensive Annual Financial Report (CAFR) or audited financial statements along with the Management Letter and responses from management, will be completed and shared with the City Council.

## **Internal Control**

The City Manager, through the Finance Director, will be responsible for implementing and maintaining a comprehensive system of internal controls that provides reasonable assurance that the City is operating in a way that is consistent with the desires of the City Council. Separation of duties, administrative policies and procedures, accounting and reporting tools and an overall organizational culture will be designed and encouraged to ensure the public's assets are protected and the City's business practices are in compliance

with state and federal law, sound ethical principles, best management practices and City Council policy.

**Budget Adoption Procedures**

Budgetary procedures for the City have been established by the City Council, which require the legal adoption of a budget for all Accounting Funds. The following are the administrative procedures followed by the City in its budgetary process. (Please also see Figure 1.)

**1. Budget Preparation.** Department heads meet with employees and prepare proposed operating and capital budgets, as well as department goals and performance standards for the coming fiscal year based on guidance provided by the Finance Director, City Manager and City Council. The department heads submit these proposed budgets along with proposed goals and performance standards to City Manager no later than March 1. The Finance Director and City Manager takes information prepared by department heads and prepares the proposed budget for the coming fiscal year for the City Council.

**2. Budget Presentation.** During the month of May, the City Manager, authorized by the City Council to act as the Budget Officer, submits a proposed operating and capital budget for all Governmental, Proprietary, Fiduciary Funds and other accounting funds to the City Council for the subsequent fiscal year. The budget documents illustrate proposed financing sources along with the proposed operating and capital budget expenditures.

**3. Budget Work Meetings.** The *Finance and Audit Committee* will hold one or more public meetings to review the long-term fiscal forecast and the City Council will hold one or more public budget work meetings to review the proposed annual budget.

**Figure 1  
Annual Budget Calendar**

Annual Budget Event	Time	Comments
Department heads submit proposed operating and capital budgets, goals and performance standards to City Manager.	March 1	City Manager and Finance Director take information prepared by department heads and prepare the proposed budget for coming fiscal year.
City Manager presents proposed budget to City Council.	May and June	Proposed operating and capital budgets for all Accounting Funds are distributed to public, press and City Council. Copies are available for public review at City Hall and on City website.
City Council reviews budget in work meetings	May and June	City Council conducts reviews during work meetings.
Public Hearing	June	Public is invited to comment on proposed annual budget. City Council makes final budget changes. City Manager incorporates changes made by City Council into final budget document.

<p><b>Budget Adoption by City Council</b></p>	<p><b>June 30</b></p>	<p><b>Final budget is adopted by the City Council. Since City revenues are highly dependent upon the actions of the State Legislature, final budget adoption may be delayed in any given year until state budget is adopted.</b></p>
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**4. Budget Public Hearing.** A public hearing is held to receive comments on all aspects of the proposed budget. A notice in the local newspaper precedes the hearing. This notice is given at least ten days before the hearing and includes the time, date and place of the hearing. All budget documents are required to be available at least seven days prior to the public hearing.

**5. Budget Adoption.** A final budget is adopted by the City Council for the subsequent fiscal year beginning July 1. Since city revenues are highly dependent upon the actions of the State Legislature, final budget adoption may be delayed in any given year until the Governor and State Legislature adopt a state budget.