

## **Policy 7.1.1      Fiscal — Long Range Goals and Financial Policies**

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### **LONG RANGE GOALS**

- I. To make financial decisions over a 20-year planning horizon to allow decision-makers to consider the long-range implications of short-range budgeting decisions.
- II. To operate a performance based budget system which provides Council and management with data on accurate measures of key successes of service, products and product costs, and motivation to continuously improve overall productivity, cost effectiveness, and quality of service.
- III. To design and maintain capital improvements to assure cost efficiency, accomplish City goals and policies, and focus on prevention so as to minimize or reduce future operating costs.
- IV. To maintain sufficient reserves so as to maintain service levels during periods of economic downturn.
- V. To fund only those programs and projects which are consistent with the General Plan and which are anticipated to most cost-effectively implement the Plan.
- VI. To undertake full cost accounting for all City services to facilitate accurate resource allocation decisions and fee recovery.
- VII. To ensure accuracy and policy consistency in City processes and reporting through regular financial and performance audits of programs.
- VIII. To facilitate the smooth and timely purchase of needed goods and services while maintaining sufficient competitive bidding processes to deliver the lowest prices.
- IX. To ensure proper and diverse investments of the City's idle funds based upon the principles, in priority order, of safety, liquidity and return on investment.
- X. To prudently utilize the issuance of debt to minimize costs, maximize cash flow, and ensure that future users are responsible for costs as appropriate.
- XI. To maintain a diversified and stable revenue base that generates the resources necessary to sustain essential City services over the Long Term Financial Plan.

### **FINANCIAL POLICIES**

#### **7.1A BUDGET POLICIES**

##### **A.1: Development of the Budget and Resource Allocation Plan**

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- A.1.1 The public will be encouraged to participate fully in the budget process.
- A.1.2 A Fiscal Issues Workshop will be held each year prior to preparation of the City Manager's Recommended Budget to consider budget issues for the upcoming Resource Allocation Plan.
- A.1.3 A balanced Twenty-Year Resource Allocation Plan shall be presented to the City Council annually.
- A.1.4 The Twenty-Year Resource Allocation Plan shall be prepared on a two-year Operating Budget cycle.
- A.1.5 The Operating Budget shall be approved annually with the second year approved in concept.
- A.1.6 A proposed budget shall be recommended to the City Council by the City Manager no less than thirty-five days before the beginning of the fiscal year, in accordance with the City Charter.
- A.1.7 At least one public hearing shall be held after the City Manager's Recommended Budget is presented to the Council in order to solicit public input before adoption.
- A.1.8 Boards and Commissions should review the annual budget as appropriate to their area of interest and make recommendations to the City Council.
- A.1.9 The City Council shall adopt the City Manager's Recommended Budget, with any changes desired, by resolution before June 30<sup>th</sup> of each year.
- A.1.10 Resources will be allocated in direct relation to General Plan goals.
- A.1.11 The Resource Allocation Plan shall be prepared by General Plan element to link city resources with the accomplishment of General Plan goals.
- A.1.12 New or expanded services should support the priorities reflected in the General Plan.
- A.1.13 All competing requests for City resources should be weighed within the formal annual budget process.
- A.1.14 Final actions on study items with significant financial impacts should be withheld until they can be made in the full context of the annual budget process.

### **A.2: Long Term Financial Planning**

- A.2.1 The City shall maintain a long term fiscal perspective by annually preparing a Twenty-Year Long Term Financial Plan for each fund. Those funds which account for intergovernmental grants will only include known entitlements.
- A.2.2 Major financial decisions should be made in the context of the Twenty-Year Long Term Financial Plan.
- A.2.3 Long term financial planning should enable the current service level provided to be sustained over time through the strategic use of reserves.
- A.2.4 The Long Term Financial Plans should be used to communicate the fiscal impact of City decisions to all stakeholders whenever possible.

**A.3: Performance-Based Budget System**

- A.3.1 The operating budget will be prepared and managed on a program basis.
- A.3.2 All costs attributable to a budgeted program will be fully reflected in program budgets (with the exception of capital costs of general-use public buildings and facilities).
- A.3.3 An emphasis should be placed on achieving maximum work productivity to ensure an optimal allocation of human and fiscal resources for Council approved services and programs.
- A.3.4 All operating programs must identify the service provided, the service level, and the resources necessary to accomplish the specific service level.
- A.3.5 A performance measurement system will be maintained and used to evaluate quality of service and to report results.

**A.4: Budget Monitoring and Modification**

- A.4.1 Expenditures for each department are legally limited to the amount authorized by the City Council in the Budget Resolution, plus subsequent changes individually approved by the City Council through Budget Modifications.
- A.4.2 The City's annual budget may be modified at any Council meeting by a majority vote of the City Council.
- A.4.3 The City's budget appropriation control shall be by program within the same fund for operating programs in the General Fund and Special Revenue Funds. For the Proprietary and Internal Service Funds, expenditures cannot exceed actual revenues plus the planned use of reserves.
- A.4.4 Appropriations for capital and special projects shall be limited to the amounts contained on the Budget Resolution for each project. All modifications to project budgets require Council approval.
- A.4.5 Budget reappropriations among programs within a Department and Fund may be authorized by the City Manager if service levels as approved by City Council are maintained.
- A.4.6 Any unexpended appropriations shall expire at fiscal year-end unless specifically reappropriated by the City Council for expenditure during the new fiscal year.

**7.1B REVENUE POLICIES**

**B.1: Revenue Base**

- B.1.1 The City will maintain a diversified and stable revenue base, not overly dependent on any land use or external funding source.
- B.1.2 Taxes levied by the City will be used for the purpose of financing services performed for the common benefit.

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- B.1.3 Taxes should be held at their lowest possible level, while maintaining Council-approved service levels.
- B.1.4 When considering a new tax or revenue source or an increase in an existing tax or revenue source, the following criteria should be considered:
- Community/voter acceptance
  - Competitiveness with surrounding communities
  - Efficiency of revenue collection and enforcement
  - Effectiveness in generating sufficient revenues in the short and long-term to justify its establishment
  - Enhancement of revenue diversity to promote stability and provide protection from downturns in business cycles
  - Equity/Fairness in distribution of the revenue burden on various segments of the community
- B.1.5 Reliance on any restricted and/or inelastic sources of revenue will be avoided.
- B.1.6 One-time revenues should not be used for ongoing expenditures.
- B.1.7 Revenue should not be targeted for a specific program, unless a revenue source has been established for the sole purpose of financing a particular expenditure.
- B.1.8 Potential new revenue sources will be investigated periodically to ensure that the City's revenue base is stable and diversified.
- B.1.9 Donations, contributions, and sponsorships may be accepted if they are in accordance with City policy and General Plan priorities.

### **B.2: Revenue Forecasting and Monitoring**

- B.2.1 All revenue estimates must be conservative, objective and reasonable.
- B.2.2 Revenue forecasts should be based on detailed information regarding historical performance and economic conditions whenever possible.
- B.2.3 At least ten years data for all tax revenue sources will be maintained.
- B.2.4 Revenues will be estimated for the budget year and for each planning year in the Twenty-Year Resource Allocation Plan.
- B.2.5 Methods to maximize the accuracy of revenue forecasts will be established.
- B.2.6 Estimated revenues from grant sources will be projected only to the specific date on which the entitlement will end.
- B.2.7 Estimated intergovernmental revenues for which the City is eligible (but which are not guaranteed) will be forecast to assure that local matching funds will be available if the revenues are realized.

### **B.3: Revenue Collection**

- B.3.1 The City will seek all possible Federal and State reimbursement for mandated projects and/or programs.

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- B.3.2 An aggressive collection system for all accounts receivable, including utility receivables, will be utilized to assure that monies due to the City are received in a timely fashion.
- B.3.3 Monthly reviews and periodic audits of Transient Occupancy Tax returns will be conducted.
- B.3.4 Monthly reviews and periodic audits of all major locally administered revenue sources will be conducted.
- B.3.5 Periodic point-of-sale audits for Sales Tax will be conducted.

### **B.4: Grants and Intergovernmental Assistance**

- B.4.1 The use of intergovernmental grant assistance for routine programs will be discouraged. Intergovernmental grants may be used for special projects which strengthen a program, have a definable starting and ending date, and do not expand a service in such a way as to require the substitution of local funds to continue part or all of the service once intergovernmental assistance ends.
- B.4.2 Intergovernmental assistance may only be used to establish or expand a program when the Twenty-Year Resource Allocation Plan meets the following conditions:
  - The program is eliminated at the end of the intergovernmental funding period, or
  - The program continues with the requisite local funding in the Twenty-Year Resource Allocation Plan upon completion of intergovernmental funding
- B.4.3 A uniform grants application process must be utilized to assure that the City Council has the information necessary to make a decision regarding a potential intergovernmental grant. Staff should present to Council a Notice of Intent regarding a possible grant source which shall include at least the following information:
  - The grant being pursued and the use to which it would be placed
  - The objectives or goals of the City which will be achieved through use of the grant
  - The local match required, if any, plus the source of the local match
  - The increased cost to be locally funded upon termination of the grant
  - The ability of the City to administer the grant

### **B.5: User Fees**

- B.5.1 User fees should be used to recover the cost of services that benefit specific segments of the community.
- B.5.2 User fees should be reviewed and adjusted at least annually to avoid sharp changes.
- B.5.3 User fees and charges should not exceed the City's full cost of providing the service.

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- B.5.4 User fees should be established at a level which reflects the full cost of providing those services.
- B.5.5 The City Council may determine for any service whether a subsidy from the General Fund is in the public interest.
- B.5.6 User fees shall only be used when the cost of providing the service can be readily calculated and administered.
- B.5.7 User fees should be adopted by Council resolution and included in the Annual Fee Schedule.
- B.5.8 For fees and other charges not subject to administrative hearings, the City Manager or the City Manager's designees have the authority to waive fees, fines, interest, and/or penalties under the following circumstances:
- The fee or fine is for the first offense and the amount waived is \$20 or less, or
  - The balance due is less than \$10 and sending it to collections is not cost effective, or
  - City staff has determined waiving a portion of fees, fines, penalties, and/or interest maximizes the amount of revenue the City will collect and has received approval from the department director.

\*Note: For additional user fee policies specific to the Utility Funds or the Community Recreation Fund, please see those sections under Enterprise Fund policies.

### 7.1C CAPITAL IMPROVEMENT POLICIES

#### C.1: Capital Improvement Plan

- C.1.1 An updated Twenty-Year Capital Improvement Plan shall be prepared on a two-year budget cycle.
- C.1.2 The City shall fund only those Capital Improvement Projects that are consistent with the adopted Capital Improvement Plan, City priorities, and General Plan goals.
- C.1.3 High priority should be given to replacing capital improvements prior to the time that they have deteriorated to the point where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purposes.
- C.1.4 New or expanded capital improvements should maximize value and avoid duplication whenever possible by partnering with other entities to pool resources or share facilities.
- C.1.5 Priority will be given to the repair and replacement of existing infrastructure as compared to the provision of new or expanded facilities.
- C.1.6 The decision on whether to repair or to replace an existing capital asset will be based on which alternative is most cost-effective or provides the best value to the City.
- C.1.7 The operating impact of proposed capital projects, including ongoing operating expenditures, capital outlay, debt service, and infrastructure

replacement will be identified in the Capital Budget and considered in the selection of projects for funding.

- C.1.8 Staff will identify the estimated costs, potential funding sources, return on investment, project schedule and relationship to the General Plan for each capital project proposal before it is submitted to the Council for approval.
- C.1.9 Capital improvements should be maintained to the level required to adequately protect the City's capital investment and to minimize future maintenance and replacement costs.
- C.1.10 A Capital Projects Fund shall be used to account for major capital acquisition or construction projects associated with the General Fund and other governmental funds. The capital projects of the Utility Enterprise Funds shall be accounted for within the respective fund.
- C.1.11 The Infrastructure Renovation and Replacement Fund shall be used to account for projects related to the City's Long-Range Infrastructure Plan for the renovation and replacement of existing general City assets. Infrastructure projects related to the City's utilities shall be accounted for in the respective utility fund.

## **C.2: Funding**

- C.2.1 Governmental capital improvements should be funded on a "pay-as-you-go" basis in most cases. Alternate financing strategies may be considered in light of the specific project and the consequences of each financing strategy.
- C.2.2 Development-related improvements such as sidewalks, curbs and gutters, street lights, and water and sewer lines should be funded by those directly benefiting from the improvements.
- C.2.3 The City will seek out and use intergovernmental funding sources for capital improvements, as is consistent with City priorities and General Plan goals.
- C.2.4 Funds for the replacement of City assets originally paid for by a developer should be included in the Capital Improvement Plan of the appropriate City fund.

## **C.3: Design and Evaluation**

- C.3.1 The planning and design of capital improvements should be based on standards that minimize construction costs, while assuring acceptable useful life and reducing maintenance requirements. Value engineering processes will be utilized when necessary and appropriate.
- C.3.2 Budgeting for capital projects must reflect when the expenditures are scheduled to occur, using multi-year planning to ensure a reasonable time frame for projecting costs.
- C.3.3 Improvements should be designed with the following goals: to maximize energy efficiency, require minimal maintenance, create an efficient physical relationship for those working in the facility, provide adequate

capacity for the projected useful life, and to have the ability to accommodate future expansion with minimum remodeling costs.

## **7.1D LAND POLICIES**

**DELETED**

**See Council Policy 1.2.7**

**Acquisition, Leasing, and Disposition of City-Owned Real Property**

## **7.1E RESERVE POLICIES**

### **E.1: General Fund Reserves**

- E.1.1 The General Fund Contingency Reserve will be maintained at 15% of operations costs in year one of the long-term plan, with annual increases based on projected increases in the Consumer Price Index. This reserve will only be utilized for non-fiscal emergencies or disasters as determined by Council.
- E.1.2 The sale of surplus property owned by the General Fund and any other one-time revenues shall be placed into a Reserve for Capital Improvement Projects to be used for capital improvement or expansion.
- E.1.3 The Twenty-Year Resource Allocation Plan (RAP) Reserve shall be used to levelize economic cycles and maintain stable service levels over the long term.
- E.1.4 The Budget Stabilization Fund will be a minimum of 15% of projected revenues for the first two years of the 20-year planning period. Beyond year two, the Budget Stabilization Fund will always have a balance of at least zero.
- E.1.5 The Service Level Set-Aside will be used to provide ongoing funds to increase service levels or add new services. Once used, this Set-Aside may be replenished according to economic conditions.
- E.1.6 Any other reserves may be established to segregate funds which are legally restricted to specific purposes.

### **E.2: Internal Service Fund Reserves**

- E.2.1 The City will establish and maintain an Equipment Replacement Reserve to provide for timely replacement of the City's fleet, furniture and fixtures, technology and communication equipment.
- E.2.2 Reserve levels for each type of equipment will be established based on the lifecycle of existing assets accounted for in the appropriate Sub-Fund of the General Services Fund.
- E.2.3 Equipment replacement expenses should be amortized through the use of rental rate charges to be fully funded by users.



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- E.2.4 The Workers' Compensation Reserve shall be maintained at a level deemed adequate to meet projected liabilities as determined by an actuarial evaluation.
- E.2.5 The Liability and Property Reserves will be maintained at a level which, together with purchased insurance policies, will adequately indemnify the City's property and liability risk. A qualified actuarial firm shall be retained in order to recommend appropriate funding levels.
- E.2.6 An Actuarial Retiree Medical Reserve will be maintained at a level that is deemed adequate to meet projected liabilities as determined by an actuarial evaluation. This Reserve should meet the GASB reporting requirements for these future costs.
- E.2.7 Rate Uncertainty Reserves will be funded for those employee benefits expenditures exhibiting high volatility or significant increases. The reserves will ensure adequate funding while minimizing the effect on the funding of other City operations.

### **7.1F DEBT MANAGEMENT POLICIES**

#### **F.1: Debt Limits and Debt Capacity**

- F.1.1 Total bonded indebtedness supported by General Fund revenues should not exceed 5% of assessed valuation of property within the City. Bond issues supported by the General Fund should be restricted to annual debt service of 5% of General Fund revenue.
- F.1.2 Land based financings should maintain a minimum property value-to-debt ratio of 3:1, with exceptions made for special circumstances at Council's discretion.
- F.1.3 Debt service should not affect the City's ability to meet future operating, capital and reserve requirements.

#### **F.2: Debt Issuance**

- F.2.1 Debt should be used only to finance improvements that cannot be paid for with current revenues, unless the purpose of the debt is to spread improvement costs over a longer period of time and ensure that future users become responsible for portions of the cost.
- F.2.2 There should be no short-term (debt) borrowing to support routine operations unless (a) the borrowing will be at a lower interest rate than the rate on invested funds, and (b) funds are available for routine operations.
- F.2.3 An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets.
- F.2.4 Bond issues should be scheduled to equalize annual debt service requirements to the degree that borrowing costs can also be minimized.
- F.2.5 Generally, the method of financing selected for debt issuance should be based on who will benefit and who should pay for the cost of improvements. The following are guidelines:

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- General Obligation Bonds – For major improvements that are of community-wide benefit and use, such as general municipal facilities and parks. These are funded by ad valorem taxes and require 2/3 voter approval.
- Assessments - For new subdivision improvements and for City improvements where the Council has determined that a specific benefiting group should be responsible for payment.
- Tax Increment Bonds - For improvements in the Redevelopment Project Area where rehabilitation or redevelopment is required. These bonds are financed by tax increment from the project to be developed.
- Certificates of Participation - Where backing by the full faith and credit of the City is the most cost-effective method. If this method is proposed, a full cost analysis will be done.
- Revenue Bonds (IDBs) – All City utility-related improvements shall be funded only from revenues of the respective utilities.
- Industrial Development Bonds – Issued to finance the construction or purchase of industrial, commercial, or manufacturing facilities to be leased or purchased by a private user. All IDBs shall be backed only by the credit of the user.

- F.2.6 The maximum term of each bond issue should be no longer than the expected useful life of the asset financed.
- F.2.7 Refunding of outstanding bond issues shall be considered if the net present value savings is at least 3%, or if it is necessary to remove a burdensome or restrictive bond covenant.
- F.2.8 The City will consider requests for conduit financing on a case-by-case basis, taking into consideration the borrower's credit worthiness, the purpose of the borrowing and its relationship to City priorities, and any impact on the City's financial position.
- F.2.9 Debt financings will generally be conducted on a competitive basis. However, negotiated financings may be used due to market volatility or the existence of an unusual or complex financing or security structure.
- F.2.10 Fixed or variable rate financing may be used, depending on the cost benefit to the City of each option.

### **F.3: Debt Management**

- F.3.1 The City will diligently monitor its compliance with bond covenants and ensure adherence to federal arbitrage and disclosure regulations.
- F.3.2 Debt financing should not exceed the anticipated useful life of an improvement.
- F.3.3 The City will seek to maintain and, if possible, improve its current bond rating(s) in order to minimize borrowing costs and preserve access to credit.
- F.3.4 A Debt Service Reserve shall be maintained for each debt issue as required by the respective bond covenants.

## **7.1G ACCOUNTING POLICIES**

### **G.1: Accounting Principles**

- G.1.1 A Comprehensive Annual Financial Report (CAFR) will be prepared each year within six months of the close of the previous fiscal year.
- G.1.2 The CAFR shall be prepared in accordance with generally accepted accounting principles applicable to local governments, and shall receive an unqualified opinion by the City's independent auditor each year.
- G.1.3 The Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting should be pursued annually.
- G.1.4 The accounting system shall provide a mechanism to fund accrued benefits liabilities.
- G.1.5 Pension obligations will be fully funded annually and current pension contributions will not be deferred to balance current expenditures.
- G.1.6 An integrated accounting and budgeting system will be maintained so that production and cost for each activity can be calculated and evaluated.
- G.1.7 The City Council shall be provided with periodic summary financial reports, by fund, comparing actual revenues and expenditures to budgeted amounts.
- G.1.8 The City shall maintain a full cost accounting system.
- G.1.9 A city-wide Cost Allocation Plan shall be developed to identify the cost of administrative support for all City departments and special funds.
- G.1.10 The "modified approach" to account for streets infrastructure capital assets, as defined by GASB No. 34, shall be utilized for the City's street network. The City Council will establish a range of acceptable condition levels for the street network on a biennial basis and the City Manager will set the actual target condition level(s) each year.
- G.1.11 The City shall establish such separate funds as required by law to account for grant funding and other revenues limited to specific use.
- G.1.12 Internal Service Funds shall be used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City.
- G.1.13 Internal Service Funds shall be used to equitably distribute facility, vehicle and equipment replacement and maintenance costs among City user departments and to assure that adequate funding is on hand to replace/maintain assets and pay liabilities.
- G.1.14 Internal Service Funds shall be maintained to account for employee benefits and to provide a mechanism to fully fund accrued benefit liabilities.

### **G.2: Internal Controls**

- G.2.1 A system of effective internal controls shall be maintained that assures only properly authorized expenditures, recordings of financial transactions, and accounting entries are executed and provides for the physical security of City funds and assets.
- G.2.2 The City's Internal Audit function should conduct its work in accordance with generally accepted government auditing standards to ensure the independence of its findings.
- G.2.3 Periodic financial reviews will be conducted to assure that adequate internal controls exist, at a reasonable cost, and that fiscal practices are in compliance with Federal, State and City rules and regulations.
- G.2.4 Operational audits will be conducted to evaluate the efficiency and effectiveness of City functions.
- G.2.5 Performance audits will be conducted regularly on a schedule set by Council to verify that the performance data reported by each Department is complete, valid and accurate.
- G.2.6 The City's cash handling practices shall be reviewed at least quarterly, as required by the City Charter, in order to safeguard the City's cash assets.

## **7.1H PURCHASING POLICIES**

### **H.1: Centralized Purchasing System**

- H.1.1 Whenever possible, purchases will be made through a competitive bid or proposal process.
- H.1.2 Purchasing policies and procedures will be as fair and open as possible so that everyone involved will understand the elements of the process, including procedures, timelines, expectations, requirements, and criteria for supplier selection.
- H.1.3 A preference of 1% shall be given to local businesses in the evaluation of bids and proposals in the procurement of goods. Contracts exempt from this preference are:
- Emergency procurement
  - Sole source contracts
  - Contracts funded from grants, donations, or gifts with special conditions that specify otherwise
- H.1.4 Purchases of goods and services will be made from locally owned businesses whenever possible, in accordance with purchasing regulations.
- H.1.5 The City will actively seek opportunities to participate with other public agencies in the development of competitive bids that combine purchasing power to achieve volume pricing.
- H.1.6 City staff shall not use their position for personal gain in any procurement.
- H.1.7 Environmentally responsible procurement policies will be used where possible, to encourage recycling, reduce waste, conserve energy and natural resources and protect environmental quality.
- H.1.8 Technological advances that present more efficient and effective ways to purchase goods and services will be encouraged.

- H.1.9 An efficient and effective system of inventory management for City-stocked items and for sale or disposal or surplus items will be maintained.

## **7.II ENTERPRISE FUND POLICIES**

### **I.1: Utility Fund Policies**

#### **I.1a: Accounting and Fund Management**

- I.1a.1 The financial activities of each utility should be accounted for in a separate fund.
- I.1a.2 The City will assure that all direct and indirect costs of each utility are fully cost-accounted.
- I.1a.3 Expenses which are incurred to support more than one utility should be allocated to each utility in a manner that reasonably reflects the benefit received.
- I.1a.4 Each utility fund shall reimburse the General Fund, and/or other applicable funds, for the full cost of general government support services provided to that utility.
- I.1a.5 The user fees established for each utility will be reviewed annually and set at a level that will support the total costs of the utility, including direct and indirect costs and contributions to reserves set by Council policy.
- I.1a.6 In the event that any utility requires one-time resources from other City funds to support its operations, or that the utility provides resources to an unrelated program, the use of these funds should be accounted for as an inter-fund loan.
- I.1a.7 Debt service coverage should be maintained for each bond issue as required by the bond covenants.
- I.1a.8 No utility resources shall be used to fund unrelated General Fund services.

#### **I.1b: Capital Program**

- I.1b.1 Capital improvements associated with the existing infrastructure of a utility should be primarily funded from two sources: rate revenue and debt financing.
- I.1b.2 New improvements or expanded capacity in any utility should be funded by those benefiting through specific charges, such as connection fees, impact fees, or mitigation fees.
- I.1b.3 Local, state, and federal funding sources, such as grants and contributions, should be pursued for utility-related capital improvement projects consistent with City priorities.
- I.1b.4 Water and wastewater improvements should be designed and constructed to the size required to serve the City's capacity needs when fully developed plus any required redundancy to assure reliable operation and provision of service.

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- I.1b.5 Bonded debt financing should be used for capital improvements as appropriate to:
- Make cost recovery of an asset more consistent with its useful life
  - Equitably assign cost over multiple generations of customers who use the assets
  - Smooth near-term rate impacts of the project
- I.1b.6 Total bonded debt should equal no more than 30% of the utility's fixed assets.
- I.1b.7 Resources for the capital requirements of each utility such as bond proceeds or connection fees should be dedicated only for capital projects and not be used for ongoing maintenance and operations.
- I.1b.8 The annual depreciation expense of the assets of each utility should be set aside into a Rehabilitation and Replacement Reserve as a minimum funding level for system replacement.

### I.1c: Reserves

- I.1c.1 A Contingency Reserve of 25% of operating expenses shall be maintained in the Water and Wastewater Funds to allow approximately 90 days of working capital in case of emergency.
- I.1c.2 A Contingency Reserve of 10% of operating expenses shall be maintained in the Solid Waste Fund. This lower reserve is appropriate because the asset value of the Solid Waste Fund is substantially smaller than the other city utilities, and because operations are performed by contract, with insurance and bonding requirements as part of the contract assuring the continued operation in the case of an emergency.
- I.1c.3 In the event that the Contingency Reserve of any utility fund is used it shall be replenished by the end of the following fiscal year or as soon as practical thereafter considering the circumstances that prompted the need to use the reserve.
- I.1c.4 A Capital Replacement Reserve shall be maintained in the SMaRT Station Replacement Fund to account for contributions from the three participating cities for the replacement of City-owned SMaRT Station equipment.
- I.1c.5 A Rate Stabilization Fund shall be maintained in each utility fund to levelize the rates and annual rate increases in light of fluctuations in financial requirements from year-to-year.
- I.1c.6 A Capital Rehabilitation and Replacement Reserve for each utility should be established to provide resources for the infrastructure replacement needs of the respective utility system. This reserve should act as a sinking fund for annual depreciation expense of the utility assets.
- I.1c.7 Debt service reserves should be maintained for each bond issue as required by the bond covenants.

**I.2: Community Recreation Fund Policies**

**I.2a: Fund Management**

- I.2a.1 The General Fund subsidy received by the Community Recreation Fund shall be fixed at the FY 2006/2007 level as the base year and increased annually by the inflation factor included in the recommended budget for the upcoming year.
- I.2a.2 Any increase in service levels by City Council not covered by an increase in revenues will result in a corresponding increase to the General Fund subsidy.
- I.2a.3 Any action by City Council to decrease revenues of the Community Recreation Fund not covered by a decrease in operating costs will result in a corresponding increase to the General Fund subsidy.
- I.2a.4 The infrastructure rehabilitation and replacement of all facilities on park land, including the golf courses and tennis center, will be funded first through the Park Dedication Fund if funds are available.
- I.2a.5 A Fee Waiver system should be provided to allow persons who are economically disadvantaged to participate in and utilize programs, facilities, and services provided by the Community Recreation Fund. The criteria for eligibility in this system shall be established by Council policy.

**I.2b: User Fees**

- I.2b.1 Golf fees shall be set annually utilizing market-based comparisons and included in the City's Annual Fee Schedule adopted by Council resolution.
- I.2b.2 User fees for recreation services shall be set administratively by the Director of Parks and Recreation in accordance with a documented methodology that depicts a relationship to cost recovery, market forces, and adjustments based on such factors as:
- Perceived benefit to the community
  - Pricing which favors Sunnyvale residents over non-residents
  - Target populations
  - Promotional and marketing considerations
- I.2b.3 The fees established administratively by the Director of Parks and Recreation shall be published at least twice a year.

**I.2c: Reserves**

- I.2c.1 The Community Recreation Fund shall maintain a Twenty-Year Resource Allocation Plan Reserve to stabilize economic cycles and maintain service levels over the long term.
- I.2c.2 Any fund balance remaining in the Community Recreation Fund shall remain in the Fund for use in subsequent years.

## COUNCIL POLICY MANUAL

- I.2c.3        The Community Recreation Fund will maintain a Co-op Sports Reserve to administer the after school intra-mural sports league programs at Sunnyvale Middle School and Columbia Middle School as required by agreement with the Sunnyvale School District.

(Adopted by Resolution 119-88; RTC 88-114 (3/15/88); Amended: RTC 06-353 (11/28/06); Amended: RTC 11-167 (8/9/11); Amended: RTC 12-196 (8/28/12); Amended: RTC 14-0205 (4/29/14)

Lead Department: Department of Finance