

**City of American Canyon and American Canyon Fire Protection District**  
**FISCAL AND BUDGETARY POLICIES**  
**Revised October 2009**

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**STATEMENT OF PURPOSE**

The purpose of the Fiscal and Budgetary Policies is to identify and present an overview of policies dictated by state law, City ordinances, and administrative policies. The aim of these policies is to achieve long-term stability and a positive financial condition. These policies provide guidelines to the administration and finance staff in planning and directing the City and Fire District's day-to-day financial affairs and in developing financial recommendations to the City Council which also sits as the ex officio Board of Directors for the American Canyon Fire Protection District. These policies set forth the basic framework for the overall fiscal management of the City and Fire District. Operating independently of changing circumstances and conditions, these policies assist in the decision-making process. These policies provide guidelines for evaluating both current activities and proposals for future programs. In short, these policies are designed to achieve, year in and year out, a balanced budget for the City of American Canyon as defined within this policy document.

These policies represent long-standing principles, traditions and practices that will guide the City and Fire District and help maintain financial stability. An important aspect of the policies is the application of budget and fiscal policies in the context of a long-term financial approach. The scope of these policies span accounting, auditing, financial reporting, internal control, operating and capital budgeting, revenue management, cash and investment management, expenditure control, asset management, strategic plans and debt management.

The City Council, upon the recommendation of the Finance Committee, annually approves the Fiscal and Budgetary Policies, making recommendations regarding modifications to policies and for incorporating them into the budget process.

**1. BASIS OF ACCOUNTING**

**Accounting in Accordance With GAAP**

City and Fire District finances shall be accounted for in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other authoritative sources.

**Organization of Accounts**

The accounts of the City / Fire District shall be organized and operated to provide fiscal accountability and compliance with all legal restrictions. Fund accounting segregates funds according to their intended purpose and is used

to aid management in demonstrating compliance with finance-related legal and contractual provisions.

- 1) **Governmental Fund Types.** Governmental funds are used to account for a government's general government activities. The five governmental funds are General, Special Revenue, Debt Service, Capital Project, and Permanent. The financial accounting model for these funds focuses on resources available for spending, using a modified accrual basis of accounting in which revenues are generally recognized when they can be measured and are available to pay the liabilities of the current period, which is about sixty days following the end of the fiscal year. Expenditures are recognized when the liability is incurred.
- 2) **Encumbrance Accounting.** The City and Fire District will utilize encumbrance accounting for its Governmental fund types, under which purchase orders (P.O.'s), contracts and other commitments such as contracted sewer and water capacity, are recorded in order to reserve that portion of the applicable appropriation.
- 3) **Proprietary Fund Types.** Two funds, Enterprise and Internal Service Funds, are classified as Proprietary fund types. They are used to account for business type activities (i.e., activities that receive a significant portion of their funding through user charges). The City uses Enterprise funds to account for its Water and Wastewater activities. Proprietary fund types are accounted for on a flow of economic resources measurement focus and use the full accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise funds receive their revenues primarily through user charges for service. The Internal Service fund is commonly used to account for activities like a motor pool, central stores, printing services, etc. that are provided on a cost reimbursable basis to other departments within the government. Currently, the City does not use internal service funds.

## **2. OPERATING BUDGET**

### **Operating Budget**

The operating budget is the City's annual financial operating plan. The budget process creates an opportunity for the City to dialogue with citizens regarding community goals and priorities and the level of services provided. It serves as a public document that can tout past accomplishments and promote communications between the citizens and the City Council. It should explain where the money to fund city operations comes from and where it goes. It can talk about major policy choices, tradeoffs, and recommendations. The City must carefully plan for its financial future to

ensure that the inflow of resources will be adequate to meet its needs. The budget will help ensure adequate fiscal control in all funds.

### **Finance Committee Review**

The City Manager and the Fire Chief will first review the Budget with the Finance Committee before submitting the annual budget to the full Council or Board of Directors. The Finance Committee shall be made up of the Mayor, Vice Mayor, Finance Director, City Manager, and when reviewing Fire Operations, the Fire Chief. Each Department Manager shall have an opportunity to meet with the Finance Committee prior to the budget being submitted to the City Council, to review Department goals, objectives, and budgetary priorities.

### **Budget Planning**

Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. The budget planning process should look forward by a three to five year period recognizing that budgets are influenced by decisions made in prior year budgets and that decisions made in the current year budgets serve a precursor to future budget requirements. The City will recognize both short-term needs and objectives in relation to the long-term goals of the City. Accordingly the City will conduct an annual "mid-year" review that will cover various economic factors (i.e., State and National trends) influencing the budget as well as micro economic factors such as the impact of new development in the City. The mid-year review will establish goals and objectives for the coming fiscal year budget and make adjustments to the current year's budget to reflect new conditions.

### **Fund Structure**

An annual budget shall be prepared for the General, Debt Service, Special Revenue, Capital Projects, Enterprise and other funds as established by the City Council.

- 1) **Basis of Budget.** All operating budgets shall be adopted on a basis consistent with Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other authoritative sources. A budget for depreciation is included in the Proprietary funds and Governmental funds to comply with GASB Statement No. 34.

Capital Projects funds are project length budgets. Revenues are included in the budget (normally through "transfers") in the year they are expected to become measurable and available. Expenditures are included in the budget when they are measurable, a liability is incurred, and the liability will be liquidated with resources included in the budget. Once adopted, Capital Improvements budgets are encumbered into future years.

- 2) Legal Level of Control (LLC). This is the level which management, without prior City Council approval, loses the ability to reapply budgeted resources from one use to another and is known as the budget's "legal level of control." At the Fund level, the LLC is the Chief Administrative Officer, as established by Ordinance, Resolution or Minute Order. Within a fund, the City has a number of levels of detail in the operating budgets – the fund, department, division, object and the line item within the fund.
  - a) Example:
    - i) Fund – General Fund
    - ii) Department – Public Safety
    - iii) Division – Police
    - iv) Object – Salaries, Other Pay and Benefits
    - v) Line Item – Regular Salaries
  - b) In the above example, Department Managers may not exceed budget allocations at the Division level without Chief Administrative Officer approval.
  - c) Only the City Council may move resources from one fund to another.
- 3) Line Item. The City's automated financial system can accommodate a robust "Program Budget" format and the City will start moving in that direction.
- 4) Program Budget. As staff resources are available, the City will develop a program budget that represents the expenditure activity within a department by the program(s) each Department is responsible for executing. The plan is for each program budget section within a Department to list out the intended results of the program for the coming year and detail what the total cost of each program is in at least three areas:
  - a. Area 1. Department Description. The Department description will include the City Council's approved Mission and Goals for the Department and a summary of total Department Cost.
  - b. Area 2. Will describe each program area of the Department.
    - (i) Each Program (i.e., Fire Suppression, Code Enforcement, City Clerk Imaging, etc.) will detail the program, number of personnel and its intended results, proposed changes if any from the previous year, and three to four key indicators of performance related to the program. Program area components will be listed as:

- (1) Labor
  - (a) Salary
  - (b) Benefits:
    - Retirement
    - Medical
    - Other
  - (c) Other

Total Labor

- (2) Operational and Maintenance (O&M)
  - (a) Energy
  - (b) Supplies
  - (c) Equipment

Total O&M

c. Area 3. Non-CIP Purchases

**Identify Available Funds**

The budget shall be sufficiently detailed to identify all available funds. The format will include estimated beginning fund balances, sources of funds, uses of funds, and estimated remaining funds at budget year end. Additionally, the format will provide two years of budget history. The Program Budget will also provide the estimated current year-end and the proposed budget.

**Interfund Transfers**

A summary showing the net budget totals will be shown, as well as gross budget totals, in order to prevent the “double counting” of revenues and expenditures. Net budget totals are derived by subtracting interfund transfers from the gross budget totals.

**Periodic Reports**

The City will maintain a budgetary control system to ensure adherence to the budget and will prepare periodic reports comparing actual revenues, expenditures and encumbrances with budgeted amounts.

**Self Sufficient Enterprise Funds**

Enterprise operations and Special Revenue Funds, including the Fire District, shall be totally self sufficient and will solely operate on revenues dedicated to the Funds mission.

**Administrative Cost Reimbursement**

The General Fund shall be reimbursed for administrative costs by all Enterprise, Special Revenue and other non-General Fund budgets. Documentation to support the transfer shall be presented to City Council during the budget process.

### **Appropriations Lapse**

Annual Appropriations lapse at year end. Items purchased through the formal purchase order system or Capital Improvement Program may be carried over by the Finance Department into the next fiscal year. The Finance Director will be responsible for setting aside sufficient funds so as not to overstate available reserves/revenues to complete a purchase.

### **Preparation (Line Item or Program Budget)**

The budget is to be prepared as provided by Ordinance or Resolution with the cooperation of all City Departments.

- 1) **Proposed Budget.** As provided by Ordinance or Resolution, the Chief Administrative Officer shall submit to the City Council or Board of Directors, a proposed budget at least 30 days prior to the end of the fiscal year that presents a complete financial plan for the ensuing year. Ideally the budget will be presented to the City Council or Board of Directors by May of each year. The budget is to be adopted prior to July 1 each year. In order to achieve this objective, the City Council / Board of Directors shall adopt a budget calendar. Members of the City Council and City Staff will modify their personal calendars to achieve the objectives of the adopted calendar.
  - a. Regardless of the budget format (Program or Line Item) the budget, at a minimum, shall include four basic segments for review and evaluation: (1) personnel costs, (2) base budget (same level of service) for operations and maintenance costs, (3) decision packages for capital and other (non-capital) project costs, and (4) revenues.
  - b. The budget review process shall include City Council / Board of Directors participation in the development of each of the four segments of the proposed budget.
  - c. The budget process will allow the opportunity for the City Council / Board of Directors to address policy and fiscal issues.
  - d. A copy of the proposed budget shall be filed with the City Clerk when it is submitted to the City Council.
  
- 2) **Modified Incremental Approach.** The operating budget for the prior year shall serve as the starting point for budget estimates adjusting for the San Francisco/Oakland Consumer Price Index and any contractual obligations that would increase or decrease the previous year's budget totals. Increases or decreases over the base budget shall be detailed in supporting documents on forms provided by the Finance Department. Detail supporting sheets shall be prepared for each

object series by the Department requesting modifications to the Incremental Budget, or as provided for by Ordinance or Resolution.

- 3) Adoption. Upon the presentation of a proposed budget document, the City Council / Board of Directors, shall call and publicize a public hearing. The City Council shall subsequently adopt by Resolution such budget, as it may have been amended, as the City's / Fire District's Annual Budget, effective for the fiscal year beginning July 1.

If the City Council / Board of Directors takes no action to adopt their respective budgets on or prior to July 1, twenty-five (25%) of the budget, as submitted per adopted Ordinance or Resolution, is deemed to have been adopted by either the City Council, and/or Board of Directors until such time as it is finally amended by the City Council and/or Board of Directors.

- 4) Budget Evaluation and Awards Program: The annual budget shall be submitted to the California Society of Municipal Financial Officers or Governmental Finance Officers Association for evaluation and consideration of a Budget Presentation Award.

#### **Balanced Budget**

The budget shall be balanced using a combination of current revenues and available funds. In principal, current year operating expenses shall be funded with current year generated revenues. A Proprietary Fund with outstanding revenue bonds shall not use debt proceeds to balance its operating budget. No budget shall be adopted unless the total of estimated revenues and available fund balance or resources is equal to or in excess of appropriations.

#### **Reporting**

Periodic financial reports shall be prepared to enable the Department Managers to manage their budgets and to enable monitoring and control of the budget. A quarterly to mid-year budget review shall be presented to City Council in sufficient detail to allow decision making.

#### **Control**

Operating Expenditure Control is addressed in Section 5 of these Policies.

#### **Contingent Appropriation**

As part of the budget, an adequate contingent appropriation of no less than 1% of the total allocations in each of the operating funds will be established. This contingent appropriation, titled "Reserve for Future Allocation," will be disbursed only by transfer to another departmental appropriation. Transfers from this item shall be controlled by Section 2(LLC) and as outlined in Section 5 of these policies. A contingent appropriation will be established except when prior year revenues do not reach estimated projections or when the

Governor declares a fiscal emergency in accordance with the provisions of Proposition 1A.

### 3. RESERVES/UNALLOCATED FUNDS

#### **Operating Reserves in Fund Balances**

The City / Fire District shall use reserves, as appropriate, in each operating fund to pay expenditures caused by unforeseen emergencies or shortfalls caused by revenue declines, extraordinary opportunities to increase efficiency or add value and to eliminate any short-term borrowing for cash flow purposes. Unallocated reserves will be maintained as detailed below except when prior year revenues do not reach estimated projections or when the Governor declares a fiscal emergency in accordance with the provisions of Proposition 1A.

- **City General Fund Reserve**

Following the initial allocation of 10% of fiscal year 2005 expenditures, effective July 1, 2007, the reserve will grow by a minimum of 3% of the total salary of the General Fund until it reaches 20% of the operating annual budget of the General Fund. Unallocated reserves will not be used to support long-term, on-going operating expenditures unless they exceed the recommended reserve. This reserve is defined as unreserved current assets minus current liabilities payable from these assets.

- **Fire District General Fund Reserve**

Beginning July 1, 2009, an initial Fire District General Fund reserve of 10% of fiscal year 2005 expenditures will be established. Thereafter, each July 1st, the reserve will grow by a minimum of 3% of the total salary of the Fire District General Fund until it reaches 20% of the Fire District's General Fund's annual operating budget. Unallocated reserves will not be used to support long-term, on-going operating expenditures unless they exceed the recommended reserve.

- **Risk and Catastrophic Reserve**

Following the establishment of the City's initial Risk Reserve of \$750,000 in February 2007, it will be increased by a minimum of \$100,000 per year until it reaches \$2.0 million. Thereafter, it should grow by 3% or the annual CPI, whichever is greater.

Beginning July 1, 2009, the Fire District will establish a Risk Reserve of \$250,000. Annually thereafter, the Risk Reserve will increase a minimum of \$25,000 until it reaches \$500,000. Thereafter it will be increased by 3% or the annual CPI, whichever is greater.

The Risk and Catastrophic Reserve will only be used in the event of a disaster or to replace equipment and buildings damaged due to an unusual event or accident.

- **Economic Development Reserve**

Following the establishment of the City's initial Economic Development Reserve of \$750,000 in February 2007, it will be increased by a minimum of 10% each year until it reaches \$5.0 million. The Economic Development Reserve will only be used to further the City's adopted Economic Development program.

- **Technology Reserve**

Following the establishment of the City's initial Technology Reserve of \$500,000 in February 2007, each department will contribute, beginning July 1, 2007, the equivalent of 1% of its allocated annual salary budget to the Technology Reserve.

Beginning July 1, 2009, the Fire District will establish a Technology Reserve of \$50,000. Annually thereafter, the reserve will increase a minimum of \$10,000 until it reaches \$100,000. Thereafter it will grow by 3% or the annual CPI, whichever is greater.

The Technology Reserve will be used to upgrade technology system improvements including, but not limited to, its automated financial accounting system, internet web page development, communications and related improvements.

The Chief Administrative Officer is directed to use unappropriated reserves to extend the above reserves.

**Fund Balances Used For Capital Projects**

Reserves within Capital Projects will be used for one time capital expenditures only if:

- 1) There are surplus balances remaining after a reserve or fund allocation is made; or
- 2) The City has made a rational analysis with justifying evidence that it has an adequate level of short and long-term resources.

**Specific Appropriation By City Council / Board of Directors**

With the exception of the annual 1% reserves provided for in Section 3 Contingencies and Appropriations, if fund balances are used to support one time capital and one time non-operating expenditures, the funds must be specifically appropriated by the City Council.

### **Capital and Debt Service Funds**

Monies in the Capital Projects Funds will be expended in accordance with an approved budget. Interest income will be used to offset construction costs or interest expense on the debt issue. Reserves in the Debt Service Fund and Interest accounts will be maintained as required by outstanding bond indentures. Reduction of reserves for debt shall be done only with City Council approval after Council has conferred with the City's Financial Advisor, Bond Counsel and the City Manager to insure there is no violation of bond covenants.

### **Debt Coverage Ratios**

Debt Coverage Ratios shall be maintained as specified by the bond covenants.

## **4. REVENUE MANAGEMENT**

### **Characteristics of the Revenue System**

The City / District strives for the following optimum characteristics in its revenue system:

- 1) Simplicity and Certainty. The City shall strive to keep the revenue classification system simple to promote understanding of the revenue sources. The City shall describe its revenue sources and enact consistent collection policies to provide assurances that the revenue is collected according to budgets and plans.
- 2) Equity. The City / District shall make every effort to maintain equity in its revenue system structure. The City shall minimize all forms of subsidization between entities, funds, services, utilities, and customers.
- 3) Centralized Reporting. Receipts will be submitted daily to the Finance Department for deposit and investment. Daily transaction reports and supporting documentation will be prepared.
- 4) Review of Fees and Charges. The City / District shall review all fees and charges annually in order to match fees and charges with the cost of providing that service, except in cases where the social benefit impact outweighs the objective of full cost recovery (e.g. recreational programs, etc.)
- 5) Aggressive Collection Policy. The City / District shall follow an aggressive policy of collecting revenues. Utility services will be discontinued (i.e. turned off) for non-payment in accordance with established policies and ordinances. The Finance Director may place a delinquent account on a re-payment plan prior to turning the account over for collection. Other receivables that are 120 days or greater shall

be sent to collections. The Finance Director is authorized to “write-off” all non-collectible accounts and specify said action in the annual audit.

### **Non-Recurring Revenues**

One-time or non-recurring revenues will not be used to finance current ongoing operations. Non-recurring revenues will be used only for one-time expenditures such as capital needs.

### **Utility Rates**

The City shall review and adopt utility rates annually, starting in 2007, that generate revenues required to cover operating expenditures, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital. This policy does not preclude drawing down cash balances to pay for debt service obligations, to retire bonded indebtedness or to undertake capital projects.

### **Interest Income**

Interest earned from investment of available monies, whether pooled or not, may be distributed to the funds in accordance with the equity balance of the fund from which monies were invested.

### **User-Based Fees and Service Charges**

With respect to utility user charges, and impact fees associated with development, the direct and indirect costs of that service shall be offset wholly by a fee. There shall be an annual review of fees and charges to ensure that the fees provide adequate coverage of costs of services. Full fee support shall be obtained from development application processing, compliance with CEQA and related development services.

Enterprise utilities and capital improvements for utilities shall be wholly offset by fees. However, from time to time, the Chief Administrative Officer may establish programs or certain procedures to place a delinquent account on a repayment program for delinquent utility charges. With respect to Special Revenue Funds and other City provided services (i.e. recreation programs), fees should partially offset services as deemed appropriate by the City Council / Board of Directors.

### **Intergovernmental Revenues/Grants**

Grant revenues shall be spent for the purpose(s) intended. The City / District shall review grant match requirements and not rely on grants for the basic operating budget nor rely on one-time revenue sources.

### **Revenue Monitoring**

Revenues actually received are to be regularly compared to the budgeted revenues and reported to the City Council quarterly.

### **Revenue Projections**

The City shall project current year revenues based on the previous five year history and will update this projection annually. Each existing and potential revenue source shall be re-examined annually. Operating Revenues will be projected out five years for report at mid-year. Exception: In the event a new re-occurring land use or development will dramatically skew the projection history, then the Chief Administrative Officer is authorized to adjust the five year history "current year" revenue number to better reflect changed conditions.

## **5. EXPENDITURE CONTROL**

### **Appropriations**

The responsibility for budgetary control lies with the Department Manager. Department Managers may not approve expenditures that exceed monies available at the division level. Capital expenditures are approved by the City Council / Board of Directors on a per project basis.

### **Amendments to the Budget**

The City Council may transfer any unencumbered appropriated balance or portion thereof from any office, department, to another at any time.

### **Authority to Amend Budget**

1. Reserve for Future Allocation. The City Manager or Fire Chief may authorize transfers from within their "Legal Level of Control." They must secure authorization from the City Council / Board of Directors to transfer money from one fund to another fund.
2. Reports to City Council / Board of Directors. Transfers from the Reserve for Future Allocation or transfers between divisions authorized by the Chief Administrative Officer shall be reported on a quarterly basis for review by the City Council / Board of Directors as part of the regular quarterly budget review.

### **Purchasing**

All purchases shall be made in accordance with the Purchasing Ordinance. Key authorizations in the ordinance are:

**APPROVAL REQUIREMENTS  
PURCHASES OF SUPPLIES & EQUIPMENT AND  
PROFESSIONAL SERVICES**

Threshold	Department Head	City Manager or Fire Chief	City Council / BOD
<b>SUPPLIES &amp; EQUIPMENT</b>			
less than \$5,000	√	√	
\$5,000 to \$25,000 (requires 3 informal proposals)	√	√	
exceeding \$25,000 (requires formal proposals)	√	√	<input checked="" type="checkbox"/>
<b>PROFESSIONAL SERVICES</b>			
less than \$10,000	√		
\$10,000 to \$50,000 (requires 3 informal proposals)	√	√	
exceeding \$50,000 (requires 3 formal proposals)	√	√	<input checked="" type="checkbox"/>

Petty Cash Reimbursement

Limit

\$100.00

√ Denotes signature approval

Denotes Council Authorization

**Prompt Payment**

All invoices approved for payment by the proper City / Fire District authorities shall be paid by the Finance Department within thirty (30) calendar days of receipt, in accordance with the provisions of state law. Proper procedures shall be established that enables the City / Fire District to take advantage of all purchase discounts, except in the instance where payments can be reasonably and legally delayed in order to maximize the City's investable cash.

**Mandatory Professional Services Review**

In an effort to maintain the most up to date and competitive services, and effective with the adoption of the Fiscal Policies, the Finance Director shall establish a list of current and reoccurring professional services. Any such service that has not been competitively reviewed for more than three to five years, should be subject to a new RFQ/RFP process. The existing professional services providers will be encouraged to submit a proposal.

### **Expenditure Control Account (ECA)**

Concurrent with the adoption of the Fiscal and Budget Policies, an "Expenditure Control Account" (ECA) was created for each Department. At the close of the fiscal year for each fund, 50% of the remaining unencumbered budget will be deposited into the Department's ECA. The remaining balance, the other 50%, will be returned to the Fund Balance. The Department's ECA may be used, upon review and approval of the Finance Committee, to further the Department's goals and objectives. The allocation in the ECA cannot be used to pay reoccurring expenses but are designed to be one-time allocations to a particular need of the Department. One exception to this ECA policy, is that when prior year revenues do not reach estimated projections or when the Governor declares a fiscal emergency in accordance with the provisions of Proposition 1A, allocations may be reduced or eliminated as recommended by the Finance Committee. In any event, at no time shall the expenditure control account for any department exceed 25% of the department's operating expenditures.

## **6. CITY CAPITAL IMPROVEMENT PROGRAM AND THE CAPITAL BUDGET**

### **Program Planning**

The City shall develop and maintain a multi-year plan for capital improvements and make capital improvements in accordance with the approved plan. The Capital Improvements Program will be updated annually. The Capital Improvements Program (CIP) is a planning document and does not authorize or fund projects. The planning time frame for the CIP will normally be five years. The Planning Commission will review the CIP for consistency with the General Plan.

### **Budget Preparation**

The Annual Capital Budget will be developed from the Capital Improvement Program. Capital project expenditures must be appropriated in the Annual Budget. A funding source/resource availability shall be presented to the City Council at the time a project is presented for funding. The City's Capital Budget is to be prepared annually in conjunction with the Operating Budget on a fiscal year basis to ensure that capital and operating needs are balanced against each other. Projects approved for funding from the Capital Improvements Program will be included in the Annual Budget.

### **Project Length Budget**

A budget for a capital project shall be a project length budget. At the end of the fiscal year, the unspent budget of an approved capital project shall automatically carry forward to the subsequent fiscal year until the project is completed.

### **Financing Programs**

Alternative financing sources will be explored. Debt shall be used only to acquire major assets with expected lives which equal or exceed the average

life of the debt issue, with the exception of costs of marketing and issuing the debt.

### **Reporting**

Periodic financial reports shall be prepared to enable the Department Heads to manage their capital budgets and to enable the Finance Department to monitor and control the authorized capital budget. Capital project status reports shall be presented to the City Council periodically.

### **Evaluation Criteria**

Capital investments shall foster goals of economic vitality, neighborhood vitality, infrastructure preservation, providing service to areas lacking service and improving services in areas with deficient services. Evaluation criteria for selecting which capital assets and projects to include for funding shall include the following:

- mandatory projects
- efficiency improvement
- policy area projects
- project's expected useful life
- availability of state/federal grants
- prior commitments
- achieving stated economic development objectives
- maintenance projects
- project provides a new service
- extent of usage
- effect of project on operation and maintenance costs
- elimination of hazards

### **General Rule for Inclusion in the Capital Budget**

If the item is over \$50,000, has a "life" of over ten years, and requires more than two people to lift it, the item should be in the Capital Budget.

## **7. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING**

### **Accounting**

The Finance Director is responsible for establishing the Chart of Accounts and for recording financial transactions within the budget. The Finance Director shall periodically determine whether or not the City should consider refinancing existing debt.

### **Auditing**

- 1) Use of Audited Comprehensive Annual Financial Report (CAFR).  
The Finance Director, pursuant to Section 37208 of the Government Code, shall be responsible for preparing an audited Comprehensive Annual Financial Report.
- 2) Pursuant to Government Code Section 37208, payroll warrants and checks will not be audited bi-weekly by the legislative body prior to payment provided the City Council annually adopts a fiscal year

budget and the Finance Department annually submits to the City Council a Comprehensive Annual Financial Report (CAFR).

- 3) The Chief Administrative Officer is directed to submit amendments to the municipal code for adoption by the City Council / Board of Directors to require the City Finance Department to annually prepare a CAFR.
- 4) Qualifications of the Auditor. In conformance with state law, the City shall be audited annually by independent accountants (“auditor”). The CPA firm must demonstrate that it has staff to conduct the City’s audit in accordance with generally accepted auditing standards and contractual requirements. The auditor must be licensed by the State of California.
- 5) Responsibility of Auditor to City Council and Finance Committee. The auditor is retained by and is accountable to the City Council / Board of Directors. The auditor shall communicate directly with the Finance Committee as necessary to fulfill its legal and professional responsibilities. The auditor’s report on the City’s financial statements shall be completed within 180 days of the City’s fiscal year end. The auditor shall prepare and review a management letter with the Finance Committee.
- 6) Contract with Auditor. The agreement between the independent auditor and the City / Fire District shall be in the form of a written contract. A time schedule for completion of the audit shall be included.
- 7) Scope of Audit. All general purpose statements, combining statements and individual fund and account group statements and schedules shall be subject to a full scope audit.
- 8) Selection of Auditor. Effective September 30, 2007, the City shall request proposals for audit services at least once every three to five years. The City shall select the auditor by May 31, of each year.

### **City Financial Reporting**

- 1) External Reporting. As a part of the audit, the auditor shall assist with preparation of a written Comprehensive Annual Financial Report (CAFR) to be presented to the City Council. The CAFR shall be prepared in accordance with generally accepted accounting principles (GAAP) and shall be presented annually to the Government Finance Officer’s Association (GFOA) or the CSMFO for evaluation and consideration for the Certificate of Achievement for Excellence in Financial Reporting. The Budget and CAFR shall be posted on the City website.

- 2) Availability of Reports. The comprehensive annual financial report shall be approved by the City Council and be made available to the elected officials, bond rating agencies, creditors and citizens.
- 3) Internal Reporting. The Finance Department shall prepare internal financial reports, sufficient to plan, monitor, and control the City's financial affairs.
- 4) GASB (Governmental Accounting Standards Board) Statement No. 45. In compliance with GASB Statement No. 45, provisions to account for retiree health benefits, the City and the Fire District are required to report the annual cost of retiree health benefits along with the unfunded actuarial accrued liabilities (the difference between the total obligation and any assets that have been set aside for financing the benefits).

The calculation must be redone every two years. The actuarial valuation includes the following assumptions:

- Turnover rate and retiree rate
- Medical care inflation
- Mortality
- Discount rate
- Benefit design
- Health care cost factors such as age, gender, family size, geographic area
- The promise to retirees
- Salary scale assumption
- Expected long-term (or short-term) rate of return on plan assets

Although there is no requirement that the City / Fire District actually fund the benefit cost, not doing so could have a significant impact on our credit rating, consequently, affecting the cost of issuing debt financing. GASB Statement No. 45 requires that a liability, called the net OPEB obligation, be recorded on the financial statements to the extent that the actual OPEB contribution is less than the annual OPEB cost. This liability, if not funded, could increase rapidly over time. The City established an irrevocable trust for OPEB contributions in FY 2008-09 and the Fire District is in the process of opening a trust for FY 2009-10. The City and the Fire District will pay, to the extent that resources are available, the annual required contribution, as designated in the actuarial report. City departments will contribute a proportional share to the fund.

## **8. INVESTMENTS AND CASH MANAGEMENT**

### **Depository Bank**

No later than June 30, 2012, a Depository Bank shall be recommended by the City Manager to the City Council for a three to five year period. A request for proposal (RFP) shall be used as the means of selecting a Depository Bank. The Depository Bank shall specifically outline safekeeping requirements and other policies and practices for the City.

### **Depositing of Funds**

The Finance Director shall promptly deposit all City funds with the Depository Bank in accordance with the provisions of the current Bank Depository Agreement and the City Council approved Investment Policies. Investments and reporting shall strictly adhere to the City Council approved Investment Policies.

### **Investment Policy**

All funds shall be invested in accordance with the approved investment policy. Investment of City funds emphasizes preservation of principal.

### **Monthly Report**

A monthly cash and investment report shall be prepared and distributed to the City Manager.

## **9. ASSET MANAGEMENT**

### **Fixed Assets and Inventory**

A fixed asset of the City is defined as a purchase or otherwise acquired piece of equipment, vehicle, furniture, fixture, capital improvement, or addition to existing land, buildings, etc. The cost or value of any such acquisitions, except for infrastructure assets, must be \$5,000 or more with an expected useful life greater than one year. The capitalization threshold for infrastructure assets including the Road and Storm Drain Systems Networks is \$50,000. Their estimated useful lives, for purposes of calculating depreciation expense are:

<b>Road System Network</b>	<b>Years</b>
Pavement	40
Curbs and Gutters	50
Sidewalks	50
Medians	50
Traffic Signals	30
Street Lights	40
Bridges	75
Trails - Asphalt	40
Trails – Concrete	50
<b>Storm Drain System Network</b>	
Storm drain lines	75
Manholes	75
Catch basins	75
Detention basins	75

### **Maintenance of Physical Assets**

The Finance Director will maintain the City's physical assets at a level adequate to protect the City's capital investment and minimize future maintenance and replacement costs. The budget will provide for the adequate maintenance and the orderly replacement of fixed assets.

### **Operational Procedures Manual**

Records shall be purged that do not meet these criteria and operational procedures shall be in accordance with a fixed asset records procedure manual approved by the Finance Committee.

### **Safeguarding of Assets**

The City's fixed assets will be reasonably safeguarded and properly accounted for. Responsibility for the safeguarding of the City's fixed asset lies with the Department Manager in whose department the fixed asset is assigned.

### **Maintenance of Records**

The Finance Department shall maintain the records of the City's fixed assets including description, cost, department of responsibility, date of acquisition and depreciation where applicable.

### **Annual Inventory**

An annual inventory of assets shall be performed by each department using guidelines established by the Finance Department. Such inventory shall be performed by the Department Head or the designated agent. The Department Manager shall use a detailed listing and shall be responsible for

a complete review of assigned fixed assets. A signed inventory list shall be returned to the Finance Department.

## **10. DEBT MANAGEMENT**

### **Debt Issuance**

The City / Fire District shall issue debt only as specifically approved by the City Council / Board of Directors and expenditure of such monies shall be in strict accordance with the designated purpose.

### **Issuance of Long-Term Debt**

The issuance of long-term debt is limited to capital improvements or projects that cannot be financed from current revenues or resources. For purposes of this policy, current resources are defined as that portion of fund balance in excess of the required reserves. The payback period of the debt will be limited to the estimated useful life of the capital projects or improvements. The City / Fire District may use long-term debt financing when it can be determined that future citizens will receive a benefit from the improvement.

### **Payment of Debt**

When the City / Fire District utilizes long-term debt financing it will ensure that the debt is financed soundly by realistically projecting the revenue sources that will be used to pay the debt; and financing the improvement over a period not greater than the useful life of the improvement.

### **Types of Debt - City**

- 1) General Obligation Bonds (G.O.'s). General obligation bonds shall be used only to fund capital assets of the general government, and not used to fund operating needs of the City. General obligation bonds are backed by the full faith and credit of the City as well as the ad valorem tax authority of the City. The term of a bond issue shall not exceed the useful life of the asset(s) funded by the bond issue. General obligation bonds must be authorized by a vote of the citizens of the City of American Canyon.
- 2) Revenue Bonds (R.B.'s). Revenue bonds shall be issued as determined by City Council to provide for the capital needs of any activities where the capital requirements are necessary for continuation or expansion of a service which produces revenue and for which the asset may reasonably be expected to provide for a revenue stream to fund the debt service requirements. The term of the obligation may not exceed the useful life of the asset(s) to be funded by the bond issue.
- 3) Certificates of Participation (C.O.P.'s) or Lease Purchase Notes. Certificates of Participation or lease purchase notes may be used in order to fund capital assets. Debt service for C.O.P.'s may be either

from general revenues or backed by a specific revenue stream or streams or by a combination of both. Generally C.O.P.'s shall be used to fund capital assets where full bond issues are not warranted as a result of the cost of the asset(s) to be funded through the instrument. The term of the obligation may not exceed the useful life of the asset(s) to be funded by the proceeds of the debt issue.

- 4) Tax Anticipation Notes (T.A.N's). Tax Anticipation Notes may be used to fund capital assets of the general government or to fund operating needs of the City. Tax Anticipation Notes are backed by the full faith and credit of the City as well as the ad valorem tax authority of the City. The term of a note issue shall not exceed the useful life of the asset(s) funded by the debt issued or seven years whichever is less.

#### **Method of Sale**

The City may use a negotiated sale of bonds and certificates of participation, provided the total debt is less than \$20 million, unless some other method is specifically agreed to by Council / Board of Directors.

#### **Financial Advisor**

The Finance Committee may recommend to the City Council a financial advisor to oversee all aspects of any bond issue over \$10 million.

#### **Analysis of Financing Alternatives**

Staff and the Finance Committee shall explore and evaluate financing alternatives for capital acquisitions and construction projects.

#### **Disclosure**

Full disclosure of operations shall be made to the bond rating agencies and other users of financial information. The City Staff, with the assistance of financial advisors and bond counsel, shall prepare the necessary materials for presentation to the rating agencies, and shall aid in the production of Offering Statements.

#### **Debt Structuring**

The repayment schedule shall approximate level debt service unless operational matters dictate otherwise.

### **11. INTERNAL CONTROLS**

#### **Written Procedures**

Wherever possible, written procedures shall be established and maintained by the Finance Director for all functions involving cash handling and/or accounting throughout the City. These procedures shall embrace the general concepts of fiscal responsibility set forth in this policy statement.

### **Department Manager Responsibilities**

Each Department Manager is responsible to ensure that good internal controls are followed throughout the Department, that all Finance Department directives or internal controls are implemented, and that all independent auditor internal control recommendations are addressed.

## **12. RISK MANAGEMENT**

### **Responsibility**

The Director of Human Resources is responsible for the general risk liability insurance and the risk management function of the City. The Fire Chief is responsible for the general risk liability insurance and the risk management function of the Fire District. Recommendations for deductibles, limits of coverage, etc. shall be presented to the Finance Committee for review.

## **13. NEW CITY DEVELOPMENT PROJECTS**

The City Council recognizes the need to periodically update its land use policies through use of various tools including, but not limited to, the periodic update of its General Plan Elements, adoption of Specific Plans, adoption of Sphere of Influence Boundaries, and related policy documents such as Master Plans or an Economic Development Strategic Plan. These various policy documents are designed to provide instruction as to how, when and under what conditions new development will occur in American Canyon.

Accordingly, the City Council desires to verify that new development and not the existing residents is paying its own way with respect to benefits and cost to the Community.

Staff is directed, following an initial environmental study, to determine whether or not a development project should utilize an Independent Fiscal Impact or a Facilities and Services Plan analysis. The development applicant will be responsible for paying for either analysis, and the City will select and retain the firm to undertake the work. The City Manager will keep a City Council approved list of firms that may do the subject work.

### **Fiscal Impact Analysis (FIA) Contents**

The FIA will demonstrate at 50%, 75% and 100% of build out what the cost in terms of new services a development will use and what the corresponding revenue will be to the City. Based on the analysis, additional conditions of approval may be placed on the development including but not limited to creating a special district to off-set the new cost burden to the City and not its existing residents. The FIA assumes that the City's existing infrastructure can accommodate the new development project. An FIA will be required for new commercial and industrial projects seeking a Traffic Impact Fee discount.

### **Facilities and Services Plan (FSP)**

In the event that a development could have extraordinary impacts on City services or the City infrastructure, a FSP will be required. The FSP will include a test to determine whether or not existing development fees are sufficient so as not to compromise the City's capacity to absorb the new development.

## **14. ROLE OF THE FINANCE COMMITTEE OF CITY COUNCIL**

The finance committee shall be made up of the Mayor and the Vice Mayor, the Finance Director, and the Chief Administrative Officer(s). The Finance Committee shall have responsibilities including:

- 1) Monitoring and recommending changes to the Investment Policy;
- 2) Managing the audit;
- 3) Overseeing of the City's Self Insurance Program;
- 4) Salary and Retirement Policy Review;
- 5) Employee Benefit Policy Review;
- 6) Make recommendations affecting these policies;
- 7) Review of Liability Insurance Coverages;
- 8) Quarterly Budget Review;
- 9) The City's Fiscal and Budget Policy Monitoring and Recommendations; and
- 10) Recommending the Retention of a Financial Advisor.