



# Fiscal Policy

## PREAMBLE

The Santa Paula City Council strives to ensure that all City resources are utilized to maximize the overall benefit and service to its constituents. In order to accomplish this goal, the City Council sets direction for management of City services in the most effective, efficient and fiscally prudent manner. Santa Paula's leaders employ foresight and fiscal discipline to manage our City's finances responsibly with the implementation of a conservative budget approach. Reserves have been established and policies developed to minimize economic uncertainty.

The purpose of this Financial Policy is to codify the City's practices, and to establish a system under which we regularly review our fiscal policies and practices and update them as needed. The Policy will be reviewed and evaluated regularly, and not less than once every two years.

Accordingly, the Santa Paula City Council has adopted this Financial Policy to:

1. Serve as a guiding principle for this and future Councils;
2. Set forth guidelines against which current budgetary performance can be measured; and
3. Provide values to assist staff with evaluation of future programs.

By adopting this Financial Policy, we confirm the City of Santa Paula's commitment to financial excellence, full disclosure, and responsible financial management.

## BALANCED BUDGET

- The City will maintain a structurally balanced operating budget. In which ongoing operating revenues will fully cover ongoing operating expenditures, including debt service, each fiscal year.
- The City will strive to maintain a 5% safety net buffer in the development of a structurally balanced budget, by limiting ongoing operating expenditures to 95% of ongoing revenues.
- City will track revenue and expenditures on an on-going basis and attempt to anticipate future trends beyond the current budget cycle in order to maintain a balanced budget.
- Ensuring that ending fund balances meet minimum policy levels, including maintaining positive fund balances for all special funds (with the exception of reimbursement grant funds).
- General Fund will not be subsidized by the Enterprise Funds.

## **BUDGET DEVELOPMENT**

- Budget development will take place in an open and publicly accessible forum.
- Public involvement is encouraged.
- A citizen's committee will serve in an advisory capacity in reviewing operating budget recommendations related to the Measure T Sales Tax revenues.
- The City will use a one-year financial plan as well as a long-term fiscal forecast model to promote orderly spending patterns and engage in long-range planning.
- Council will formally review the City's fiscal condition at the midpoint of each fiscal year.

## **FINANCIAL REPORTING**

- The City will contract for an annual audit by a qualified independent certified public accountant and will strive for an unmodified auditor's opinion. Addressing any deficiencies identified in the annual audit will be a top priority for the City.
- An RFP for auditing services will be conducted at least once every five (5) years.
- The City will use generally accepted accounting principles in preparing its annual financial statements.
- The City will strive to meet the requirements of the GFOA awards program for financial reporting.

## **MINIMUM FUND BALANCE AND RESERVES (ALSO SEE GENERAL FUND RESERVE POLICY)**

- The City will strive to maintain a General Fund reserve equivalent to 20% of budgeted annual General Fund operating expenditures.
- The City's goal is to maintain a minimum working capital balance of 25% of operating expenditures in the Water Enterprise Fund and 50% of operating expenditures in the Sewer Enterprise Fund, in accordance with the 2019 Rate Study.
- The City's goal is to establish and maintain Replacement Funds for all major assets and infrastructure.

## **REVENUE MANAGEMENT**

- We will seek to maintain a diversified and stable revenue base to protect the City from short-term fluctuations in any one source of revenue.
- The City will maintain revenue projections extending several years into the future.
- Fifty percent of one-time and non-sustainable revenues will be excluded as a source to fund ongoing programs, debt service or other long-term obligations.
- Fees will be reviewed and updated every two years in a master fee schedule.
- The City will make conscious decisions about cost recovery and/or general tax subsidy of those services that benefit only portions of the tax-paying public.
- A comprehensive analysis of City costs and fees should be made every 5 to 10 years.

## **FISCAL CONSTRAINTS AND EXPENDITURE MANAGEMENT**

- The City will utilize a competitive procurement process as set forth in the purchasing policy.
- Budgeted expenditures shall reflect the Council's goals.
- The City will continue to search for viable opportunities to prioritize efficiencies in departments, including through outsourcing services where appropriate.
- The City Manager and Director of Finance will track expenditures to evaluate trends and identify potential problems.
- Acquisition of real property or facilities shall be tied to a specific objective, with adequate funds identified and taking into account long-term fiscal and policy impacts.
- Agenda staff reports having a fiscal impact require review by the Finance Department. Such reports will provide clear fiscal analysis to decision makers and the public.
- The City will strive to examine best fiscal practices and adopt industry standard pricing on expenditures, while reviewing comparable market values on revenue streams to match or exceed when possible

## **ENTERPRISE FUNDS**

- Fees and rates will fully cover direct and indirect costs, including operations, capital outlay, long-term maintenance, replacement and debt service.
- Enterprise funds will not be subsidized by the General Fund.
- Costs of general government services will be allocated to the enterprise funds based on approved methodology, and will be updated on an annual basis.

## **INTERNAL SERVICE FUNDS**

- The cost of replacing existing equipment will be fully amortized and funded.
- Rates shall be established to recover the replacement cost of each piece of equipment at the end of its useful life.
- Facilities will be amortized to cover ongoing maintenance and cyclical repairs and, to the extent possible, the replacement or expansion of major structures.

## **DEBT MANAGEMENT (SEE DEBT POLICY)**

- Debt financing is not appropriate for any recurring purpose, such as operating and maintenance expenditures.
- The City will evaluate pay-as-you-go versus long-term financing in funding capital improvements.
- The City will use financing mechanisms that appropriately spread the cost of facilities and services to current and future benefiting residents.

## **HUMAN RESOURCE MANAGEMENT**

- The City will strive to provide competitive compensation and benefits to its employees while balancing this goal with the resources available to the City and the service needs of its residents.
- The City will encourage employees to further develop their skills and abilities to better serve its residents.
- The City will staff for the "valleys," not the "peaks." Temporary and/or contract staffing may be used to meet peak workload requirements.
- Part-time employee hours will generally not exceed 960 hours annually.
- New technologies and related capital investments will be evaluated to improve workforce productivity.
- Contracting with the private sector for the delivery of services will be considered where cost-effective and when established service levels can be met or enhanced.

*We will hold ourselves, as individuals and the City of Santa Paula organization as a whole, accountable for being consistent with this Financial Policy.*