

City of Mission Viejo COUNCIL POLICY



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PURPOSE

The purpose of this policy is to set forth the financial policies upon which the development of the City's budget is to be based. Except as otherwise noted, the following policies will be reviewed every two years during the preparation of the City's biennial budget; recommended changes will be presented to the City Council for consideration with the adoption of the City's biennial budget.

1. REVENUE

A. The City will endeavor to maintain a diversified and stable revenue base to minimize the effects of economic fluctuations on revenue generation.

B. The City will estimate revenue using an objective, analytical process; in the case of assumption uncertainty, conservative projections will be utilized.

C. The City will fund all current expenditures from current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.

D. Development process costs and related administrative expenses will be totally offset by development fees.

E. The City will identify basic tax-provided services and will establish user fees and charges for services provided in excess of basic services and/or to non-taxpaying users.

F. The Administrative Services Director will provide to the City Council quarterly reports that discuss revenue projections in light of actual collections to date. Revised revenue projections will be budgeted every six months.

G. On an ongoing basis, non-recurring revenues and fund balances will not be used to fund recurring expenditures, and regarding interest earnings, only interest generated from minimum General Fund fund balance amounts, as specified by Council policy, will be used for recurring expenditures. Each two-year budget will be evaluated for compliance with this policy. Necessary changes to these policies to achieve compliance will be evaluated at the time of each Master Financial Plan update.

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H. Gas Tax revenues, except those resulting from the Orange County Transportation Authority (OCTA) Fund exchange agreement, will be allocated between the operating and capital budget on a flexible, two-year basis. Capital projects will be funded first, and any remaining balance, less the replenishment of the minimum Gas Tax reserve, will be available to fund street-related operating costs.

2. RESERVES

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to support long-term financial plans. The purpose of this reserves policy is to establish the reserve levels for various City funds. The policy covers the General Fund Group (which includes the General Fund, Computer/Equipment/Furnishings/Vehicle (CEFV) Replacement Fund and the Facility Rehabilitation/Replacement (FR&R) Fund), Library Fund and the Gas Tax Fund. The General Fund Group includes the CEFV and FR&R Replacement Funds since the resources maintained in these funds originated from the General Fund.

For the General Fund Group, unless the fund balances are non-spendable or restricted, fund balances are considered to be unrestricted and available for use at the discretion of the City Council. Under GASB Statement 54 - Fund Balance Reporting and Governmental Fund Type Definitions, unrestricted fund balances may be categorized as committed, assigned and unassigned. For the Library and Gas Tax Fund, since the resources in these funds is limited as to use by external enforceable limitations (e.g. enabling legislation) fund balances in these funds will be categorized as restricted.

Unrestricted fund balances may be categorized as committed, assigned and unassigned within the General Fund Group. To be categorized as *Committed*, amounts can be used only for the specific purposes determined by the highest formal action of the City Council (adoption of ordinance). The City Council has the authority to establish, modify, or rescind a fund balance commitment.

To be categorized as *Assigned*, amounts are categorized to reflect the City's intended use of those resources. Such intent is to be established by the City Council; however, the City Council may designate the authority to another body or official.

All fund balance resources that cannot be properly classified into the non-spendable, restricted, committed or assigned category will be categorized as *Unassigned*.

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A. General Fund Group

The City Council may Assign unrestricted fund balances in the General Fund, CEFV Fund and FR&R Fund for two primary purposes: (1) to ensure the continued orderly operation of City government, while maintaining the stability of tax and fee structures in the event of unforeseen occurrences or emergencies outside of the City’s control; and (2) to allow for the setting aside of funds for particular purposes that will be spent in the future.

1. A Contingency Reserve in the General Fund to address unforeseen occurrences or emergencies will be maintained at a level of 15% of General Fund revenues. Unforeseen occurrences or emergencies may include uncertainties related to local economic downturns, State and/or Federal actions affecting local revenues, uninsured losses, errors in actuarial liability estimates and other financial risks outside the control of the City. The level of this reserve will be re-evaluated every two years.

2. The CEFV Replacement Fund shall be maintained as a separate fund for budgetary purposes, to provide a source of funding for the replacement of existing office equipment, vehicles, computers and office furnishings when these assets reach the end of their useful lives and there are no other funding sources available. This fund will be combined into the General Fund on the City’s audited financial statements and the total balance in this fund will be categorized as **assigned**. There is no minimum balance required in this fund; however, all transfers to this fund will be directed by the City Council.

3. The FR&R Replacement Fund shall be maintained as a separate fund for budgetary purposes to provide a source of funding for the rehabilitation or replacement of existing City buildings, recreational facilities, and parks/sport fields fixtures when these assets reach the end of their useful lives and there are no other funding sources available. Rehabilitation and replacement costs may include design and construction administration costs related to the projects. This fund will be combined into the General Fund on the City’s audited financial statements and the total fund balance in this fund will be categorized as **assigned**. There is no minimum balance required in this fund; however, all transfers to this fund will be directed by the City Council.

4. Computer Software Replacement Reserve – The City Council may assign portions of General Fund unrestricted fund balance to accumulate resources for funding the replacement of major software programs. The funding level of the reserve will take into account the estimated costs of replacement programs as well as the probabilities of the programs having to be replaced. The level of the reserve will be re-evaluated every two years.

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5. Capital Projects Reserve – The City Council may assign portions of General Fund unrestricted fund balance to fund capital projects and other expenditures that were not anticipated in the biennial budget process or could not be entirely financed from current revenues.
6. The City Council will direct staff to determine the amount of outstanding contract and purchase order commitments at the end of every fiscal year and assign these balances as Encumbrances in the financial records and on the annual audited financial statements.
7. The City Council will direct staff to determine the amount of continuing appropriations at the end of every fiscal year and assign these balances as Unencumbered Carryover Appropriations in the financial records and on the annual audited financial statements.

The assigned reserves identified in items 1, 2, 3, 4 and 5 and any unassigned fund balances in the General Fund will be included in the City Council’s **Discretionary Reserve** total. Discretionary Reserves will be maintained at a minimum of no less than 40%, with a maximum target level of 50% of annual General Fund Group revenues.

Funding levels of all General Fund Group reserves will be reviewed during periods of economic stagnation to avoid reductions in operating service levels. To the extent that resources are insufficient in the Contingency Reserve to adequately address the unforeseen occurrence or emergency, the expenditure budget should be reduced or the revenue budget increased to fund an unanticipated need. The Capital Projects Reserve may be utilized next, if there are no viable means of reducing the expenditure budget or increasing the revenue budget. If the Capital Projects Reserve is depleted, all other reserve accounts may be utilized to address the unforeseen occurrence or emergency.

B. Library Fund

A minimum fund balance of 10% of estimated Library Fund revenues for the current year will be set aside as a reserve for unanticipated economic downturns and/or one-time expenditures.

C. Gas Tax Fund

A minimum fund balance of 30% of estimated Gas Tax revenues for the current year will be set aside as a reserve for street repair emergencies and other unanticipated traffic safety projects.

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3. CASH MANAGEMENT

A. Investments and cash management will be the responsibility of the City Treasurer.

B. In accordance with Section 53646 of the Government Code, the City Council will review and update annually, a specific investment policy. The primary purpose of this policy is to set forth the City's investment philosophy and objectives. The City's investment objectives are, in order of priority: 1) safety, 2) compliance with Federal, State and local laws, 3) liquidity, and 4) yield. The policy also specifically outlines authorized investments, the acceptable percentages and maximum maturities allowed for each investment instrument and the criteria used to determine qualified depositories/dealers.

C. The City invests all idle cash as determined by analysis of anticipated cash flow needs. Specific emphasis will be placed on future cash requirements when selecting maturity dates to avoid forced liquidations and the potential corresponding loss of investment earnings.

D. In order to maximize yields from the overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund, including the Computer, Equipment, Furnishings, and Vehicle Replacement Fund and the Facility Rehabilitation/Replacement Fund, in accordance with generally accepted accounting principles.

E. The City will maintain the investment portfolio under the prudent person standard. The investment officer, acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments. The Prudent Person Standard is as follows: Investments shall be made with judgment and care -- under circumstances then prevailing -- which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

F. To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the City will be held in safekeeping by a third party bank trust department, acting as the City's agent.

G. The City Treasurer will generate a monthly report to the City Manager and City Council in conformance with all State laws and City investment policy requirements.

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H. The City's independent auditors, in conjunction with their annual audit, will audit the cash and investment balances in conformance with generally accepted accounting principles. In addition, the Treasurer shall establish an annual process of independent review by an external auditor to assure compliance with internal controls. The City Council may at any time order an audit of the investment portfolio and/or City Treasurer's investment practices.

I. An Investment Advisory Commission (IAC) will oversee the implementation of the City's investment program, assuring its consistency with the investment policy and recommending changes to the investment policy for consideration by the City Council.

4. CAPITAL FINANCING AND DEBT MANAGEMENT

A. Capital budgeting will be consistent with the City's Master Financial Plan (MFP) and Capital Improvement Plan (CIP) which have been developed to assure the provision of adequate and complete physical facilities necessary to implement the City's General Plan and all of its components.

B. Capital projects may be funded on a pay-as-you-go basis or using debt proceeds. Capital budgeting is limited by the availability of revenues and bond proceeds. The ability to meet debt service requirements will act as a ceiling on capital programming. Because capital expenditures produce long-term benefits, they can appropriately be funded by debt. The issuance of debt can lead to a more equitable tax burden across generations of citizens and taxpayers. However, pay-as-you-go financing provides operating flexibility when the economy or revenue growth slows. Therefore, it is best that there be a balance between pay-as-you-go financing and debt financing for capital projects.

C. The City recognizes the value of external sources of capital and incorporates these into the CIP to the degree funding is available. The availability of alternative sources of funding will always be examined.

D. When the City finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.

E. The City will not use long-term debt financing for any recurring purpose such as current operating and maintenance expenditures. Short-term debt instruments such as revenue, tax, or bond anticipation notes shall be excluded from this limitation.

F. It is critical that outstanding debt be kept at a level that is appropriate for the City's resources. To accomplish this goal, certain industry-standard measures of debt burden will be monitored regularly. The

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following measurements will be monitored by staff, as part of the MFP biennial update or by other means: debt service on General Fund supported debt as a percent of General Fund operating expenditures; debt service on General Fund supported debt as a percent of General Fund revenues; unreserved General Fund fund balance as a percent of General Fund operating expenditures; unreserved General Fund fund balance as a percent of General Fund revenues; debt service coverage on lease revenue bonds that are secured by specific revenue sources; gross direct debt; net direct debt; net overlapping debt; gross direct, net direct, and net overlapping debt per capita; net direct debt as a percent of per capital personal income; and net direct debt as a percent of assessed valuation. These measures will be examined for the City and for other comparable cities. Trends in these measures will be reported to the City Council. In addition, prior to the issuance of long-term debt, staff will review these measurements as well as current economic conditions including local unemployment rates, per capita and median family income trends and federal, state and county economic forecasts. Staff will analyze the impact of any potential debt on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.

G. The City will generally conduct debt financing on a competitive basis. However, negotiated issues may be used due to market volatility or the use of an unusual or complex financing or security structure.

H. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.

I. The City will provide full disclosure on every financial report and bond prospectus and will strive to maintain the best possible bond rating on all debt issuances.

5. OPERATING BUDGET

A. The City of Mission Viejo's Operating Budget will be developed on a biennial basis. Appropriations for each year of the two-year budget will be approved by the City Council annually.

B. The City of Mission Viejo's Two-Year Operating Budget will be presented in a program budget format. The purpose of this format is to clearly outline the major service areas and the associated expenditures.

C. The City's Budget Document will include selected performance measures to better describe the workload of the different City programs, to gauge our effectiveness in providing services, and to ultimately be able to compare the City's overall performance with other like agencies.

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D. The City will avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets. Each adopted two-year budget will be balanced. Recurring General Fund revenues will be equal to or greater than recurring General Fund operating expenditures for each year of the two-year budget, and over the long term. It shall also be a goal to fund the required transfers to the City’s two asset replacement reserve funds (CEFV Replacement Fund and Facility Rehabilitation and Replacement Fund) from recurring revenues.

E. All budgetary procedures will conform to state regulations and generally accepted accounting principles.

F. Three levels of budgetary authority to amend appropriations will be maintained. 1) Department Heads will have the flexibility to move appropriations from one object to another within the budget categories of personnel costs, operating costs and capital outlay, within each budgetary program within the same fund; 2) the City Manager will have the authority to transfer appropriations between categories, and between budgetary programs within the same fund, but only within each of the five broad program areas of General Government (Legislative and Management & Support combined), Public Safety, Community Development, Engineering & Transportation and Infrastructure Maintenance combined, and Recreation, Community and Library Services; and 3) City Council approval will be required to transfer appropriations between funds and between program areas.

G. With Council approval, all non-salary appropriations in the operating budget will be carried over from the first year to the second year of the two-year budget period; however, only encumbered operating budget and all unexpended capital budget appropriations will be recommended to Council for carryover at the end of the two-year budget period.

H. Omnibus budget adjustment reports will be presented to Council every six months.

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6. EMPLOYEE COMPENSATION

A. On an annual or biennial basis, the Human Resources Division will perform a salary and total compensation survey of selected benchmark positions for the group of comparator agencies approved by the City Council. The current approved group of comparator agencies is as follows: Brea, Carlsbad, Costa Mesa, Fullerton, Irvine, Laguna Niguel, Lake Forest, Newport Beach, Orange, Rancho Cucamonga, San Clemente, Tustin, Whittier and Yorba Linda. . The Human Resources Division may use alternate comparator agencies for benchmark positions in Information Technology, Animal Services, and Library Services. The California Public Agencies Compensation Survey (CalPACS) will serve as the primary source of information for determining the recommended salary range and total compensation level for each of the City’s authorized position titles.

B. The policy of the City is to compensate its employees on a total compensation basis at a level comparable to the median plus five percent of the group of approved comparator agencies, with salary levels set at no less than the median salary level of such comparator agencies. For purposes of this policy, total compensation is defined to include salary, retirement, insurances, auto allowances and City-paid deferred compensation, as defined in the most recent citywide classification and compensation study. Retiree health insurance benefits are currently not included in total compensation, pending the availability of sufficient data from the comparator agencies for their programs.

C. The City Manager is authorized to develop a salary range structure consistent with this policy. Salary range adjustments will reflect consideration of internal differentials and the relationships among all other authorized City positions.

D. In recognition of the significant change this policy represents from the previous employee compensation policy, an implementation timeframe of up to four years (until January 2010) is authorized to reach the policy goals outlined in B. above.

E. The policy of the City is to carefully control the cost of employee retirement programs. Accordingly, the City’s policy is to require employees to pay a portion of the 8% member contribution toward the 2.7% @ 55 retirement benefit.

F. The policy of the City is to promote and facilitate wellness and wellness programs for its employees. Effective July 1, 1999, the City Council authorizes free membership, with some restrictions as determined by the City Manager, to the City’s Recreation and Tennis Centers for employees and their resident family members.

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G. Health care benefits are important for attracting and retaining competent and dedicated providers of municipal services and providing employer contributions toward the cost of retiree health insurance is a particularly attractive benefit. Effective July 1, 2000, the City Council authorized the City Manager to establish a Retiree Insurances Program available to City employees with at least twelve (12) years of continuous service who simultaneously retire from the City and CalPERS. The escalating cost of health care, however, requires the City to manage this benefit in a fiscally responsible manner. In light of the expected continued growth in the cost of health care premiums, as well as the requirement in FY 2008-09 to implement Governmental Accounting Standards Board (GASB) Statement No. 45 regarding post-employment benefits, the City has established the Supplemental Health Account for Retired Employees (SHARE), a defined contribution program for retiree health insurance benefits for all employees first eligible for City health benefits on or after January 1, 2007. It is the City's policy to conform to all GASB reporting requirements affecting post-employment benefits and to fully fund the actuarially determined annual required contribution (ARC) for the Retiree Insurances Program.

H. With Council approval, the City will utilize the standard mileage rate set by the Internal Revenue Service to reimburse eligible employees for any miles driven in the employees' own vehicles while on City business.

7. CAPITAL IMPROVEMENT PROGRAM

A. The purpose of the Capital Improvement Program is to systematically plan, schedule, and finance capital projects as determined by the City Council. The Capital Improvement Program will include major rehabilitation costs to existing infrastructure and facilities, as well as the cost of new facilities or capital improvements. It is the policy of the City Council that staff inventory and assess the condition of all major capital assets every two years as part of the Master Financial Plan update and budget development processes.

B. A Capital Improvement Project (CIP) shall be established for all projects greater than \$100,000 with an expected useful life of at least three years that meet the definition of a public project per Section 22002 of the State Public Contracts Code. These include projects involving construction, reconstruction, alteration, renovation, improvement, demolition, repair work, and painting (other than minor repainting) of any City-owned, leased or operated facility. This definition excludes maintenance work as defined in Section 22002 of the State Public Contracts Code (for example: routine, recurring and usual work for the preservation or protection of any publicly owned or operated facility; landscape maintenance; minor repainting)

For purposes of this policy, the scope of a proposed CIP may be defined as the work to be undertaken at a single location. However, if work at a specific location would not otherwise meet the cost

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threshold for establishing a separate CIP, and similar work is to take place at other locations(s) during the same fiscal year, then all such similar work shall be defined as one CIP.

C. The City Council shall be notified in advance, via the consent calendar, of all public projects to be undertaken as part of the operating budget that are greater than \$30,000 and less than or equal to \$100,000, and all non-landscape maintenance work (such as concrete/hardscape repairs and creek repairs) greater than \$100,000 at a single location. All other maintenance work is not subject to this notification requirement.

D. As part of the budget process, departments will submit Capital Improvement Program requests providing a detailed description of the proposed project or purchase. All requests will be reviewed by the City Manager using a formal evaluation process. The evaluation system consists of several ranking criteria, which are assigned relative weights as follows:

1. Project's impact on health and safety, weight of 10
2. Project remedies a service deficiency, 8
3. Service area served by the project, 7
4. Percent of project costs to be funded by outside (non-City) resources/funding to be lost if project not done, 7
5. Priority assigned by requesting department, 6
6. Project improves, upgrades or rehabilitates an existing facility, 9
7. Project's impact on the City's operating budget, 8
8. Other considerations, including aesthetics, feasibility, special populations served, conformance to plans (including the General Plan), interjurisdictional effects and community economic effects, 6

Once the evaluation scores are assigned, project priorities will be determined and then presented to City Council for further review. After completing their review, City Council will appropriate funding for the capital improvement plan as part of the two-year budget process.

E. The City Manager will have the authority to transfer up to \$30,000 in appropriations between capital projects within the same fund but only among projects under the responsibility of the same department. All other changes to capital project budgets must be approved by the City Council.

F. With Council approval, unexpended project appropriations will be carried forward as continuing appropriations to future fiscal years, as required to complete the intent of the original budget.

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G. The City will actively pursue grant and other outside funding sources for all capital improvement projects.

8. FIXED ASSETS

A. The “modified approach” to fixed asset infrastructure accounting, as defined by the Governmental Accounting Standards Board in their Statement No. 34, shall be utilized for the City’s street network. This policy will be reevaluated in the event there is a substantial reduction in City revenues from FY 2001-02 levels. 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.

9. LONG-RANGE FINANCIAL PLANNING

A. The City will provide an update of the Master Financial Plan (MFP), which projects General Fund revenues and expenditures over a seven-year period, on a biennial basis. The MFP update will serve as the first step in the development of the City’s budget for the subsequent two-year period. The MFP will address long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs and assumptions.