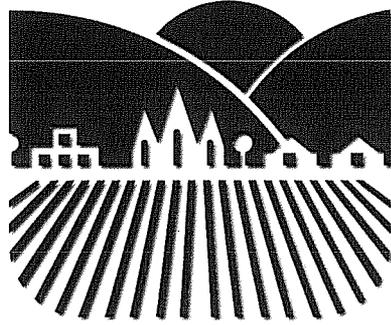


SECTION 2

FISCAL POLICIES



CITY of NAPA

Fiscal Policy

Objective

To review the City's Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.

Background

As recommended by the Government Finance Officers Association (GFOA), City staff developed, and presents to Council, a set of Fiscal Policy statements to adopt which address the following areas:

- General Financial Goals
- Operating Budget Policies
- Revenue Policies
- Expenditure Policies
- Utility Rate and Fees Policies
- Capital Improvement Budget Policies
- Short-Term Debt Policies
- Long-Term Debt Policies
- Reserve Policies
- Investment Policies
- Accounting, Auditing & Financial Reporting Policies

GFOA further recommends that the adopted Fiscal Policy be reviewed on an annual basis in conjunction with the preparation of the Long Term Financial Plan and the City's budget process. This review is performed by staff in order to document proposed new policies identified through the preparation of the Long Term Financial Plan. Additionally, as circumstances change, there is sometimes a need to modify existing Fiscal Policy statements.

In an effort to present clear fiscal direction in a concise format, staff developed each policy to allow ease in implementation.

Recommendation

It is recommended that the City's Fiscal Policy below be reviewed and adopted by Council.

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
General Financial Goals		
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced two-year budget by June 30 of every other year.	√	
A bi-annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
Current revenues will be sufficient to support current operating expenditures.	--	In 2007-08 an operating deficit of \$2.01 million will exist. In 2008-09 the operating deficit will be reduced to \$1.55million. The budget will be balanced by using fund balance and under-funding the Contingency and Retiree Medical Reserves, Infrastructure / Facility Maintenance funds, & labor concessions.
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.	√	
The purchase of new or replacement capital equipment with a value of \$25,000 or more and with a minimum useful life of two years will require City Council approval.	√	

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
Operating Budget Policies (continued)		
The City will project its equipment replacement and maintenance needs for the next six years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.	--	A program and policy will be developed during the next budget cycle to address this need.
The City will forecast its General Fund expenditures and revenues for each of the next six years and will update this forecast at least annually.	√	
The City will review, on a bi-annual basis, the General Fund operating position (operating revenues less operating expenditures) to determine if funds are available to operate and maintain future public facilities.	√	
If funding is not available for operations and maintenance costs, the City will delay construction of proposed new facilities.	--	Operating and maintenance costs for proposed facilities will be factored into future CIP budgets for review prior to approval.
Revenue Policies		
The City will strive to maintain a diversified and stable revenue base to shelter it from short-term fluctuations in any one revenue source.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate. Revenue estimates adopted by the City Council must be conservative.	√	
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	--	This policy and practice will be developed during the next budget cycle.

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
Revenue Policies (continued)		
One-time revenues will be used for one-time expenditures only. (Including capital and reserves).	--	Some one-time revenues will be needed to address the operating deficit.
The City will annually identify developer fees and permit charges received from "non-recurring" services performed in the processing of new development. Revenue from these sources will be used to meet peak workload requirements.	√	
Utility Rates and Fees Policies		
The City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual debt service used for capital assets and overhead charges.	√	Annual review completed. Water rates increased 5% October 1, 2006. Will increase each October thereafter by CPI. Garbage rates increased 5.65% January 1, 2007.
Expenditure Policies		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted capital improvement program.	√	
The City will develop an annual six-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	--	The six-year plan will be revised to include the details described prior to the next budget cycle.

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
Capital Improvement Budget Policies (continued)		
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
	--	Operating and maintenance costs will be factored into future intergovernmental project considerations.
The City will coordinate development of the capital improvement budget with the development of the operating budget. All operating costs for services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.	--	Operating and maintenance costs will be considered in future budget cycles as a part of the project review.
The Council will review the Street Improvement Program every two years during budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Capital Project Fund – Street Improvement.	√	
The Park Acquisition & Development Fund, as well as other special development impact funds, may only be used to fund facilities included in the Master Plan for City Facilities.	--	Citywide Master Plan will be created during FY 2007-09
The Water Fund and the Materials Diversion fund may only use funds generated by their service charges, grants and other outside sources of funds to fund their CIP projects.	√	
The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be documented and made available for City Council review.	√	

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
Capital Improvement Budget Policies (continued)		
The City Council may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans must be repaid consistent with terms established in a written agreement.	√	
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, interfund loans or other self-supporting bonds instead of general obligation bonds when feasible.	√	
Reserve Policies		
The General Fund Undesignated Fund Balance will be maintained at a level of between 2% - 5% of its operating budget. GFOA recommends a level of 5 to 15%.	--	Compliance will be achieved in FY 2007-08. However, Undesignated Fund Balance is projected to be 3.1%, \$2.02 million for FY 2008-09.
The City will maintain General Fund Emergency reserves at a level at least equal to 12% of operating expenditures. The primary purpose of these reserves is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	--	Emergency Reserve = \$7.0 million, or 11.3 % of General Fund operating expenditures for FY 2007-08. In FY 2008-09 \$7.4 million will be reserved or 11.5% of expenditures.

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
Reserve Policies (continued)		
A Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of the Contingency Reserve will be established as needed but shall not be less than 1% of General Fund operating expenditures.	--	Contingency Reserve will be maintained at \$400,000 each year. This is approximately \$200,000 below the policy target which can be achieved when the operating position recovers.
The City will establish an account to accumulate funds to be used for payment of accrued benefits for employees that leave the employ of the City. This reserve will be maintained at a level at least equal to 75% of the projected costs for employees who are eligible for retirement.	--	Accrued Leave Reserve- FY 2007-08 will be \$208,000 and FY 2008-09 \$215,523. Based on 3 year average cost.
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self-insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	--	In 2008-09, base requirements of General Liability Reserve = \$600,000 and Workers Compensation Reserve = \$450,000 will be achieved. Analysis of additional funding for claims not covered by insurance pool will be factored at a later date.
The City will comply with GASB 45 and establish an irrevocable trust to fund future retiree medical costs.	--	Annual required contributions of \$1.4 million is necessary to meet long term needs for the medical retiree program. In FY 2007-08, \$800,000 has been appropriated and \$1.18 million in FY 2008-09. The City will begin contributing to a trust managed through CalPERS and adequate funds will be contributed to fund obligations in successive budget cycles.

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
Reserve Policies (continued)		
The City will maintain a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level adequate to replace all stock, per the pre-determined replacement schedule.	--	Fleet Replacement Reserve transfer = \$700,000 each year to restore funds from prior cycle. The fund reserve will be studied to determine its appropriate reserve requirements during this budget cycle.
The City will establish Water and Materials Diversion Operating Reserves in their respective funds. The minimum Reserve levels shall be determined by independent studies approved by Council.	√	Water Reserve = \$7.7 million
	√	Materials Diversion Reserve = \$2.1 million
The City will establish a Golf Course Operating Reserve to cover costs during a year when revenue is down due to limited play or adverse conditions. The reserve should be funded at a level at least equal to 10% of operating expenditures.	--	Golf Course Operating Reserve will be deferred until the next cycle, when a stronger revenue position should exist.
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	Adopted February 6, 2007
The City Treasurer will invest the City's monies in accordance with applicable laws and adopted investment policies and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comment
Accounting, Auditing & Financial Reporting Policies		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	--	Quarterly reports will be provided beginning with the closing of the first quarter of FY 2007-08.
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Standard & Poor's = AA- for recent Water Revenue Bond issuance. General Fund rating has not been secured as there has been no recent City-backed debt issuance.
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report (CAFR), including an audit opinion.	--	Independent audited Basic Financial Statements are now prepared. With the advent of the new financial system, the CAFR will be prepared.
Maintain a liquidity ratio of at least 1:1	√	The City currently maintains a 5:1 ratio.

Legend:

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in Budget

*THIS PAGE
INTENTIONALLY
LEFT BLANK*