

Policies and Objectives

The overall goal of the City's Financial Plan is to link what we want to accomplish over the year with the resources required to do so. Formal statements of fiscal policies and major objectives provide the foundation for achieving this goal.

This section of the Financial Plan outlines the policies used in guiding the preparation and management of the City's overall budget.

BUDGET AND FISCAL POLICIES

The following budget and fiscal policies guide the preparation and execution of the 2017-2018 Financial Plan:

- ◆ Financial Plan Purpose and Organization
- ◆ Financial Reporting and Budget Administration
- ◆ General Revenue Management
- ◆ User Fee Cost Recovery Goals
- ◆ Enterprise Funds Fees and Rates
- ◆ Revenue Distribution
- ◆ Investments
- ◆ Appropriations Limitation
- ◆ Fund Balance and Reserves
- ◆ Capital Improvement Management
- ◆ Capital Financing and Debt Management
- ◆ Human Resource Management
- ◆ Productivity
- ◆ Contracting for Services

Changes for 2017-2018

Staff annually reviews governing policies and legislation effecting financial policies and procedures. These have been included in the 2017-2018 Financial Plan for adoption.

SB1029 California Debt and Investment Advisory Commission: accountability reports was passed by the State Legislature and

approved by the Governor on September 12, 2016. The City's Debt Management Policy has been updated to meet the current requirements. The revised policy can be found on page A-15 and A-16

FINANCIAL PLAN PURPOSE AND ORGANIZATION

Financial Plan Objectives: Through its Financial Plan, the City will link resources with results by:

- ◆ Identifying community needs for essential services.
- ◆ Organizing the program required to provide these essential services.
- ◆ Establishing program policies and goals, which define the nature and level of program services required.
- ◆ Identifying activities performed in delivering program services.
- ◆ Proposing objectives for improving the delivery of program services.
- ◆ Identifying and appropriating the resources required to perform program activities and accomplish program goals.
- ◆ Setting standards to measure and evaluate the
 - Output of program activities
 - Accomplishment of program objectives
 - Expenditure of program appropriations

Measureable Objectives: The financial plan will establish measurable program objectives and allow reasonable time to accomplish those objectives.

Goal Status Reports: The status of major program objectives will be formally reported to the Council on an ongoing, periodic basis.

Policies and Objectives

Mid-Year Budget Review: Before the beginning of the next Fiscal Plan planning period, the Council will review progress since adoption of the plan in preparation for setting goals and objectives for the next planning period.

Operating Carryover: Operating program appropriations not spent during the previous fiscal year may be carried over for specific purposes in the following fiscal year with the approval of the City Manager or designee. Consideration will be given to the following:

- ◆ Appropriations that have been encumbered prior to June 30.
- ◆ Appropriations required to meet approved professional contracts.
- ◆ Appropriations required for completion of minor capital projects or required maintenance.
- ◆ Appropriations required to complete approved information technology replacements and upgrades.
- ◆ Appropriations related to grant revenues and expenditures.

Balanced Budget: The City will endeavor to maintain a balanced budget during the period of the Financial Plan. This means that:

- ◆ Operating revenues should fully cover operating expenditures, including debt service.
- ◆ Ending fund balance (or working capital in the enterprise funds) must meet minimum policy levels as established in the City's adopted Reserve Policy. For the enterprise funds, this level has been established at 25% of operating expenditures.
- ◆ On April 7, 2015 the City Council adopted a formal Fund Balance Reserve Policy for the General Fund.

Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation:

- ◆ Beginning fund balance can only be used to fund capital improvement plan projects, or other "one-time," non-recurring expenditures, or
- ◆ In times of fiscal crisis when a plan has been developed to prevent long-term imbalance and depletion of operating reserves.

FINANCIAL REPORTING AND BUDGET ADMINISTRATION

Annual Reporting: The City will prepare annual financial statements as follows:

- ◆ The City will contract for an annual audit by a qualified independent certified public accountant. The City will strive for an unqualified auditors' opinion.
- ◆ The City will use generally accepted accounting principles in preparing its annual financial statements, and will strive to meet the requirements of the GFOA's Award for Excellence in Financial Reporting program.
- ◆ The City will endeavor issue audited financial statements within 180 days after year-end.

Interim Reporting: The City will prepare and issue timely interim reports on the City's fiscal status to the Council and staff. This includes: on-line access to the City's financial management system by City staff; access to monthly reports, and mid-year budget reviews.

Budget Administration: The Council may amend or supplement the budget at any time after its adoption by majority vote of the Council members. The City Manager or designee has the authority to make administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end fund balances.

Policies and Objectives

GENERAL REVENUE MANAGEMENT

Diversified and Stable Base: The City will seek to maintain a diversified and stable revenue base to protect it from short-term fluctuations in any one revenue source.

Long-Range Focus: To emphasize and facilitate long-range financial planning, the City will maintain current projections of revenues for the succeeding five years.

Current Revenues for Current Uses. The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.

Interfund Transfers and Loans. In order to achieve important public policy goals, the City has established various special revenue, capital project, debt service and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures and fund equity.

Any transfers between funds for operating purposes are clearly set forth in the Financial Plan, and can only be made by the Director of Finance in accordance with the adopted budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year.

In summary, interfund transfers result in a change in fund equity; interfund borrowings do not, as the intent is to repay in the loan in the near term.

From time-to-time, interfund borrowings may be appropriate; however, these are subject to the following criteria in ensuring that the fiduciary purpose of the fund is met:

- ◆ The Director of Finance is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 60 days. The most common use of interfund borrowing under this circumstance is for grant programs like the Community Development Block Grant, where costs are incurred before drawdowns are initiated and received. However, receipt of funds is typically received shortly after the request for funds has been made.
- ◆ Any other interfund borrowings for cash flow or other purposes require case-by-case approval by the Council.
- ◆ Any transfers between funds where reimbursement is not expected within one fiscal year shall not be recorded as interfund borrowings; they shall be recorded as interfund operating transfers or long-term loans that affect equity by moving financial resources from one fund to another.

USER FEE COST RECOVERY GOALS

Ongoing Review

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index for materials, supplies and services and by approved personnel costs based on negotiated Memorandums of Understanding

Policies and Objectives

for salaries and benefits. Fees may be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery.

User Fee Cost Recovery Levels:

In setting user fees and cost recovery levels, the following factors will be considered:

- ◆ **Community-Wide Versus Special Benefit.** The level of user fee cost recovery should consider the *community-wide* versus *special service* nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
- ◆ **Service Recipient Versus Service Driver.** After considering community-wide versus special benefit of the service, the concept of *service recipient* versus *service driver* should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery from the applicant is appropriate.
- ◆ **Effect of Pricing on the Demand for Services.** The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly-stimulated by artificially low prices.

- ◆ Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.
- ◆ **Feasibility of Collection and Recovery.** Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.

Factors Favoring Low Cost Recovery Levels:

Very low cost recovery levels are appropriate under the following circumstances:

- ◆ There is no intended relationship between the amount paid and the benefit received.
- ◆ Collecting fees is not cost-effective or will significantly impact the efficient delivery of service.
- ◆ There is no intent to limit the use of the service. Public safety (police and fire) emergency response services fit into this category. Historically, access to neighborhood and community parks would also fit into this category.
- ◆ The service is non-recurring, generally delivered on a "peak demand" or emergency basis, cannot be reasonably planned for or an individual basis, and is not readily available from a private

Policies and Objectives

sector source. Many public safety services also fall into this category.

- ◆ Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might fall into this category.

Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

- ◆ The service is similar to services provided through the private sector.
- ◆ Other private or public sector alternatives could or do exist for the delivery of the service.
- ◆ The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
- ◆ The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.

General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges:

- ◆ Revenues should not exceed the reasonable cost of providing the service.
- ◆ Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs and organization-wide support costs such as accounting,

personnel, information technology, legal services, fleet maintenance and insurance.

- ◆ The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- ◆ Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
- ◆ A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

Low Cost-Recovery Services

Based on the criteria discussed above, the following types of services should have very low cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for the operation as a whole should be general-purpose revenues, not user fees.

- ◆ Delivering public safety emergency response services such as police patrol services and fire suppression.
- ◆ Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.

Development Review Programs:

The following cost recovery policies apply to the development review programs:

- ◆ Services provided under this category include:
 - Planning (planned development permits, tentative tract and parcel maps, rezonings, general plan amendments, variances, use permits).

Policies and Objectives

- Building and safety (building permits, structural plan checks, inspections).
 - Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments).
 - Fire plan check.
- ◆ Cost recovery for these services should generally be very high. In most instances, the City's cost recovery goal should be 100% for Building Safety and 60% for Development Services fees.
- ◆ However, in charging high cost recovery levels, the City needs to clearly establish and articulate standards for its performance in reviewing developer applications to ensure that there is "value for cost."

Comparability With Other Communities

In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

- ◆ Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for several reasons:
- They reflect the "market" for these fees and can assist in assessing the reasonableness of the City of Manteca's fees.
 - If prudently analyzed, they can serve as a benchmark for how cost-effectively the City of Manteca provides its services.
- ◆ However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:
- What level of cost recovery is their fee intended to achieve compared with our cost recovery objective?

- What costs have been considered in computing the fees?
- When was the last time that their fees were comprehensively evaluated?
- What level of service do they provide compared with our service or performance standards?
- Is their rate structure significantly different than ours and what is it intended to achieve?

These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of our fees to other communities should be one factor among many that is considered in setting City fees.

ENTERPRISE FUND FEES AND RATES

Water, Sewer, and Solid Waste: The City will set fees and rates at levels which fully cover the total direct and indirect costs-including operations, capital outlay, and debt service-of the following enterprise programs: water, sewer and solid waste.

Golf: Golf program fees and rates should fully cover direct operating costs. Because of the nature of the golf course with its focus on youth and seniors, subsidies from the General Fund to cover indirect costs and capital improvements may be considered by the Council as part of the Financial Plan process, along with the need to possibly subsidize direct operating costs as well.

Transit: Based on targets set under the Transportation Development Act, the City will strive to cover at least twenty percent of transit operating costs with fare revenues.

Ongoing Rate Review: The City will review and adjust enterprise fees and rate

Policies and Objectives

structures as required to ensure that they remain appropriate and equitable.

INVESTMENTS

Responsibility: Investments and cash management are the responsibility of the City Treasurer or designee. The Director of Finance serves as the Treasurer for the City and the Successor Agency to the Manteca Redevelopment Agency.

Investment Objective: The City's primary investment objective is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default. Accordingly, the following factors will be considered in priority order in determining individual investment placements:

- ◆ Safety
- ◆ Liquidity
- ◆ Yield

Tax and Revenue Anticipation Notes: There is an appropriate role for tax and revenue anticipation notes (TRANS) in meeting legitimate short-term cash needs within the fiscal year. However, many agencies issue TRANS as a routine business practice, not solely for cash flow purposes, but to capitalize on the favorable difference between the interest cost of issuing TRANS as a tax-preferred security and the interest yields on them if re-invested at full market rates.

As part of its cash flow management and investment strategy, the City will only issue TRANS or other forms of short-term debt if necessary to meet demonstrated cash flow needs; TRANS or any other form of short-term debt financing will not be issued for investment purposes.

Selecting Maturity Dates: The City will strive to keep all idle cash balances fully invested through daily projections of cash flow requirements. To avoid forced liquidations and losses of investment earnings, cash flow and future requirements will be the primary consideration when selecting maturities.

Diversification: As the market and the City's investment portfolio change, care will be taken to maintain a healthy balance of investment types and maturities.

Authorized Investments: The City will invest only in those instruments authorized by the California Government Code Section 53601.

The City will not invest in stock, will not speculate and will not deal in futures or options. The investment market is highly volatile and continually offers new and creative opportunities for enhancing interest earnings. Accordingly, the City will thoroughly investigate any new investment vehicles before committing City funds to them.

Consolidated Portfolio: In order to maximize yields from its overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.

Safekeeping: Ownership of the City's investment securities will be protected through third-party custodial safekeeping.

Reporting: The City Treasurer will develop and maintain a comprehensive, well-documented investment reporting system, which will comply with Government Code Section 53607. This reporting system will provide the Council and the Investment Oversight Committee with appropriate investment performance information.

Policies and Objectives

Investment Policy: The City will develop and maintain an Investment Policy that addresses the City's administration of its portfolio, including investment strategies, practices, and procedures.

APPROPRIATIONS LIMITATION

- ◆ The Council will annually adopt a resolution establishing the City's appropriations limit calculated in accordance with Article XIII-B of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter approved amendments or state legislation that affect the City's appropriations limit.
- ◆ The supporting documentation used in calculating the City's appropriations limit and projected appropriations subject to the limit will be available for public and Council review at least 10 days before Council consideration of a resolution to adopt an appropriations limit. The Council will generally consider this resolution in connection with final approval of the budget.
- ◆ The City will strive to develop revenue sources, both new and existing, which are considered non-tax proceeds in calculating its appropriations subject to limitation.
- ◆ The City will annually review user fees and charges and report to the Council the amount of program subsidy, if any, that is being provided by the General or Enterprise Funds.
- ◆ The City will actively support legislation or initiatives sponsored or approved by League of California Cities which would modify Article XIII-B of the Constitution in a manner which would allow the City to retain projected tax revenues resulting from growth in the local economy for use as determined by the Council.

- ◆ The City will seek voter approval to amend its appropriation limit at such time that tax proceeds are in excess of allowable limits.

CAPITAL IMPROVEMENT MANAGEMENT

CIP Projects: \$25,000 or More. Non public works construction projects and equipment purchases which cost \$25,000 and public works construction projects of \$100,000 or more will be included in the Capital Improvement Plan (CIP). All other minor capital outlays will be included with the operating program budgets.

CIP Purpose: The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a five-year plan organized into the same functional groupings used for the operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the City's existing fixed assets.

Project Manager: Every CIP project will have a project manager who will prepare the project proposal, ensure that required phases are completed on schedule, authorize all project expenditures, ensure that all regulations and laws are observed, and periodically report project status.

CIP Review Committee: Headed by the City Manager or designee, this Committee will review project proposals, determine project phasing, recommend project managers, review and evaluate the draft CIP budget document, and report CIP project progress on an ongoing basis.

CIP Phases: The CIP will emphasize project planning, with projects progressing

Policies and Objectives

through at least two and up to ten of the following phases:

- ◆ **Designate.** Appropriates funds based on projects designated for funding by the Council through adoption of the Financial Plan.
- ◆ **Study.** Concept design, site selection, feasibility analysis, schematic design, environmental determination, property appraisals, scheduling, grant application, grant approval, specification preparation for equipment purchases.
- ◆ **Environmental Review.** EIR preparation, other environmental studies.
- ◆ **Real Property Acquisitions.** Property acquisition for projects, if necessary.
- ◆ **Site Preparation.** Demolition, hazardous materials abatements, other pre-construction work.
- ◆ **Design.** Final design, plan and specification preparation and construction cost estimation.
- ◆ **Construction.** Construction contracts.
- ◆ **Construction Management.** Contract project management and inspection, soils and material tests, other support services during construction.
- ◆ **Equipment Acquisitions.** Vehicles, heavy machinery, computers, office furnishings, other equipment items acquired and installed independently from construction contracts.
- ◆ **Debt Service.** Installment payments of principal and interest for completed projects funded through debt financings. Expenditures for this project phase are included in the Debt Service section of the Financial Plan.

CIP Appropriation. The City's annual CIP appropriation for study, design, acquisition and/or construction is based on the projects designated by the Council through adoption of the Financial Plan. Adoption of the Financial Plan CIP appropriation does not automatically authorize funding for specific project phases. This authorization generally

occurs only after the preceding project phase has been completed and approved by the Council and costs for the succeeding phases have been fully developed.

Accordingly, project appropriations are generally made when contracts are awarded. If project costs at the time of bid award are less than the budgeted amount, the balance will be unappropriated and returned to fund balance or allocated to another project. If project costs at the time of bid award are greater than budget amounts, five basic options are available:

- ◆ Eliminate the project.
- ◆ Defer the project for consideration to the next Financial Plan period.
- ◆ Rescope or change the phasing of the project to meet the existing budget.
- ◆ Transfer funding from another specified, lower priority project.
- ◆ Appropriate additional resources as necessary from fund balance.

CIP Budget Carryover: Appropriations for CIP projects lapse three years after budget adoption if projects do not have expenditures, appropriations, or approved contracts. Projects which lapse from lack of project account expenditures may be resubmitted for inclusion in a subsequent CIP.

Project accounts, which have been appropriated and that have account activity, will not lapse until completion of the project phase and remaining appropriated funding will be carried over into future Financial Plans.

CAPITAL FINANCING AND DEBT MANAGEMENT POLICY

Capital Financing:

- ◆ The City will consider the use of debt financing only for one-time capital

Policies and Objectives

improvement projects and only under the following circumstances:

- When project revenues or specific resources will be sufficient to service the long-term debt.
 - When the project's useful life will exceed the term of the financing.
- ◆ The City will integrate debt issuances with the objectives of the Capital Improvement Plan and will incorporate such integration in the City's Financial Plan.
 - ◆ Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term instruments such as revenue, tax or bond anticipation notes is excluded from this limitation. (See Investment Policy)
 - ◆ Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes or developer agreements when benefits can be specifically attributed to users of the facility. Accordingly, development impact fees should be created and implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary community facilities.
 - ◆ The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:

Factors Favoring Pay-As-You-Go Financing

- Current revenues and adequate fund balances are available or project phasing can be accomplished.

- Existing debt levels adversely affect the City's credit rating.
- Market conditions are unstable or present difficulties in marketing.

Factors Favoring Long Term Financing

- ◆ Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
- ◆ The project securing the financing is of the type, which will support an investment grade credit rating.
- ◆ Market conditions present favorable interest rates and demand for City financings.
- ◆ A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
- ◆ The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
- ◆ The life of the project or asset to be financed is 10 years or longer.

Debt Management Policy

- ◆ The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.
- ◆ An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.
- ◆ The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.
- ◆ The City will seek an investment grade rating (Baa/BBB or greater) on any direct debt and will seek credit

Policies and Objectives

enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.

- ◆ The City will monitor all forms of debt annually coincident with the City's Financial Plan preparation and review process and report concerns and remedies, if needed, to the Council.
 - ◆ The City will diligently monitor its compliance with bond covenants, including but not limited to any federal tax compliance requirements with respect to any tax exempt debt obligations and ensure its adherence to applicable regulations.
 - ◆ The City will maintain good, ongoing communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).
 - ◆ The City will periodically review the requirements of, and will remain in compliance with, any continuing disclosure undertakings, particularly under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 with respect to debt issues.
 - ◆ The City will diligently monitor the use of proceeds from its debt issues, to ensure that the proceeds will be directed to the intended use. The City will maintain records of the intended use of the proceeds when the debt was originally issued (by keeping related documents, such as the Official Statements, tax certificates, as applicable) and the use of the proceeds at the time they are expended. Such records shall be retained so long as the debt issue (and any subsequent debt issue which refunded the debt) remains outstanding and for three years following the final maturity or redemption. The City shall consult legal counsel regarding the use of proceeds that is a change from the original intended purpose.
- ◆ So long as required by California Government Code Section 8855(k), the City shall file annual report(s) to the California Debt and Investment Advisory Commission ("CDIAC") in accordance with CDIAC's requirements on a timely basis. The City shall retain a copy of each such annual report.
 - ◆ In connection with each debt issue, the City will file or cause Bond Counsel or another applicable member of the financing team to file on behalf of the City, a report of proposed issuance and a report of final sale, as required by California Government Code Section 8855(i) and (j).

Debt Capacity

General Purpose Debt Capacity. The City will carefully monitor its levels of general-purpose debt. Because our general purpose debt capacity is limited, it is important that we only use general purpose debt financing for high-priority projects where we cannot reasonably use other financing methods for two key reasons:

- ◆ Funds borrowed for a project today are not available to fund other projects tomorrow.
- ◆ Funds committed for debt repayment today are not available to fund operations in the future.

Enterprise Fund Debt Capacity: The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

Independent Disclosure Counsel:

Policies and Objectives

For any public offering debt issue, the City will retain independent disclosure counsel to assist with the preparation of the official statement or any other similar offering document and the continuing disclosure agreement. The roles of bond counsel and disclosure counsel may be served by the same firm, based on the City's determination on a case-by-case basis.

Land Based Financings:

- ◆ **Public Purpose:** There will be a clearly articulated public purpose in forming an assessment or special tax district in financing public infrastructure improvements. This should include a finding by the Council as to why this form of financing is preferred over other funding options such as impact fees, reimbursement agreements or direct developer responsibility for the improvements.
- ◆ **Eligible Improvements:** Except as otherwise determined by the Council when proceedings for district formation are commenced, preference in financing public improvements through a special tax district shall be given for those public improvements that help achieve clearly identified community facility and infrastructure goals in accordance with adopted facility and infrastructure plans as set forth in key policy documents such as the General Plan, Specific Plan, Facility or Infrastructure Master Plans, or Capital Improvement Plan.

Such improvements include study, design, construction and/or acquisition of:

- Public safety facilities.
- Water supply, distribution and treatment systems.
- Waste collection and treatment systems.

- Major transportation system improvements, such as freeway interchanges; bridges; intersection improvements; construction of new or widened arterial or collector streets (including related landscaping and lighting); sidewalks and other pedestrian paths; transit facilities; and bike paths.
- Storm drainage and flood protection improvements.
- Parks, community centers, and other recreational facilities.
- Open space.
- Cultural and social service facilities.
- Other governmental facilities and improvements such as offices, information technology systems and telecommunication systems.

- ◆ **Active Role:** Even though land-based financings may be a limited obligation of the City, we will play an active role in managing the district. This means that the City will select and retain the financing team, including the financial advisor, bond counsel, trustee, appraiser, disclosure counsel, assessment engineer and underwriter. Any costs incurred by the City in retaining these services will generally be the responsibility of the property owners or developer, and will be advanced via a deposit when an application is filed; or will be paid on a contingency fee basis from the proceeds from the bonds.

- ◆ **Credit Quality:** When a developer requests a district, the City will carefully evaluate the applicant's financial plan and ability to carry the project, including the payment of assessments and special taxes

Policies and Objectives

during build-out. This may include detailed background, credit and lender checks, and the preparation of independent appraisal reports and market absorption studies. For districts where one property owner accounts for more than 25% of the annual debt service obligation, a letter of credit further securing the financing may be required.

- ◆ **Reserve Fund:** A reserve fund should be established pursuant to the terms of the issuance documents. Generally, the reserve fund requirement shall equal the least of: the maximum annual debt service; 125% of the annual average debt service; or 10% of the principal amount of the bonds (or 10% of the sale proceeds of the bonds), subject to Section 148 of the Federal Internal Revenue Code.
- ◆ **Capitalized Interest During Construction:** Decisions to capitalize interest will be made on case-by-case basis, with the intent that if allowed, it should improve the credit quality of the bonds and reduce borrowing costs, benefiting both current and future property owners.
- ◆ **Maximum Burden:** Annual assessments (or special taxes in the case of Mello-Roos or similar districts) should generally not exceed 1% of the sales price of the property; and total property taxes, special assessments and special taxes payments collected on the tax roll should generally not exceed 2%.
- ◆ **Benefit Apportionment:** Assessments will be apportioned

according to a formula that is clear, understandable, equitable and reasonably related to the benefit received by—or burden attributed to—each parcel with respect to its financed improvement. Any annual escalation factor should generally not exceed 2%.

- ◆ **Special Tax District Administration:** In the case of Mello-Roos or similar special tax districts, the total maximum annual tax should not exceed 110% of annual debt service. The rate and method of apportionment should include a back-up tax in the event of significant changes from the initial development plan, and should include procedures for prepayments.
- ◆ **Disclosure to Bondholders:** In general, each property owner who accounts for more than 10% of the annual debt service or bonded indebtedness must provide ongoing disclosure information annually as described under SEC Rule 15(c)-12.
- ◆ **Disclosure to Prospective Purchasers.** Full disclosure about outstanding balances and annual payments should be made by the seller to prospective buyers at the time that the buyer bids on the property. It should not be deferred to after the buyer has made the decision to purchase. When appropriate, applicants or property owners may be required to provide the City with a disclosure plan.
- ◆ **Refinancings:**

Policies and Objectives

- **General Guidelines:** Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered (within federal tax law constraints) under the following conditions:
 - There is net economic benefit.
 - It is needed to modernize covenants that are adversely affecting the City's financial position or operations.
 - The City wants to reduce the principal outstanding in order to achieve future debt service savings, and it has available working capital to do so from other sources.
 - **Standards for Economic Savings:** In general, refinancings for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.
 - Refinancings that produce net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt.
 - Refinancings with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.
 - Notwithstanding the foregoing, a refunding of Successor Agency bonds shall be determined based on the requirements of Health and Safety Code Section 34177.5.
- ### Types of Debt That May Be Issued
- To implement the financing (or refinancing) objectives, the City will consider the issuance of generally accepted types of debt, including:
- ◆ Revenue Bonds – limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue;
 - ◆ Special Assessment/Special Tax Bonds – limited liability obligations secured by special assessments or special taxes as described above under “Land-Based Financings”;
 - ◆ General Fund Supported Lease Revenue Bonds or Certificates of Participation – generally involves a lease arrangement between the City and a joint powers authority (or another entity), whereby bonds are issued by the authority for the financing of the project, and the City agrees to make lease payments in sufficient amounts to secure debt service payments on the bonds.
 - ◆ General Obligation Bonds – bonds secured by a dedicated property tax override (i.e., a property tax in excess of the 1% basic ad valorem property tax rate) that will be issued only after voter approval pursuant to the State Constitution and other applicable laws.
 - ◆ Tax Increment Bonds – bonds secured by a portion of ad valorem property tax that are allocated to a successor agency (to a former redevelopment agency) or another entity formed pursuant by law (such as an enhanced infrastructure

Policies and Objectives

financing district or a community revitalization infrastructure district). The successor agency will consider issuance of bonds for refunding purposes. The City has not yet formed any enhanced infrastructure financing district, community revitalization infrastructure district or any similar entity, and will undertake applicable legal and feasibility analysis at the time of consideration of the formation of any such entity.

- ◆ Conduit Financing Bonds – bonds as described above under “Conduit Financings,” for which debt service will be secured by the applicant’s payments and the role of the City (or the City affiliated entity) will be limited to be the conduit issuer, without financial liability.
- ◆ The above list is not exhaustive. The City may from time to time consider other types of debt to accommodate its financing and refinancing objectives

Policy Goals Related to Planning Goals and Objectives

- ◆ It is a policy goal of the City to protect taxpayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.
- ◆ The City is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration, including debt issuance and management.
- ◆ The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

SB 1029 Compliance

Senate Bill 1029, signed by Governor Brown on September 12, 2016, and enacted

as Chapter 307, Statutes of 2016, requires issuers to adopt debt policies addressing each of the five items below:

- ◆ The purposes for which the debt proceeds may be used.
 - The sections entitled “Capital Financing,” “Land-Based Financing,” “Conduit Financings” are among the provisions that provide information regarding the purposes for which debt proceeds may be used.
- ◆ The types of debt that may be issued
 - The section entitled “Types of Debt That May be Issued” provides information regarding the types of debt that may be issued.
- ◆ The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
 - The sections entitled “Capital Financing” and “Debt Capacity” are among the provisions that address the relationship between the City's debt and Capital Improvement Program.
- ◆ Policy goals related to the issuer's planning goals and objectives.
 - See section under the caption “Policy Goals Related to Planning Goals and Objectives.”
- ◆ The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.
 - The section under the caption “Debt Management” provides information regarding the City's internal control procedures designed to ensure that the

Policies and Objectives

proceeds of its debt issues are spent as intended.

PERSONNEL MANAGEMENT

Regular Staffing:

- ◆ The budget will fully appropriate the resources needed for authorized regular staffing and will limit programs to the regular staffing authorized.
- ◆ Regular employees will be the core work force and the preferred means of staffing ongoing, year-round program activities that should be performed by full-time City employees rather than independent contractors. The City will strive to provide competitive compensation and benefit schedules for its authorized regular work force. Each regular employee will:
 - Fill an authorized regular position.
 - Be assigned to an appropriate bargaining unit.
 - Receive salary and benefits consistent with labor agreements or other compensation plans.
- ◆ To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
 - The Council will authorize all regular positions.
 - The Human Resources and Risk Management Department will coordinate and approve the hiring of all regular and temporary employees.
 - All requests for additional regular positions will include evaluation of:
 - The necessity, term, and expected results of the proposed activity.
 - Staffing and materials costs including salary, benefits, equipment, uniforms, clerical support, and facilities.

- Additional revenues or cost savings, which may be realized.

- Staffing and contract service cost ceilings will limit total expenditures for regular employees, temporary employees, and independent contractors hired to provide operating and maintenance services.

Temporary Staffing:

- ◆ The hiring of temporary employees will not be used as an incremental method for expanding the City's regular work force.
- ◆ Temporary employees include all employees other than regular employees, elected officials and volunteers. Temporary employees will generally augment regular City staffing as extra-help employees, seasonal employees, contract employees, interns and work-study assistants.
- ◆ The City Manager and Department Managers will encourage the use of temporary rather than regular employees to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less than full-time, year-round staffing is required.

Under this guideline, temporary employee hours will generally not exceed 50% of a regular, full-time position (1,000 hours annually). There may be limited circumstances where the use of temporary employees on an ongoing basis in excess of this target may be appropriate due to unique programming or staffing requirements. However, any such exceptions must be approved by the City Manager based on the review and recommendation of the Administrative Services Director.

- Contract employees are defined as temporary employees with written

Policies and Objectives

contracts approved by the City Manager. Contract employees will generally be used for medium-term (generally between six months and two years) projects, programs or activities requiring specialized or augmented levels of staffing for a specific period.

The services of contract employees will be discontinued upon completion of the assigned project, program or activity. Accordingly, contract employees will not be used for services that are anticipated to be delivered on an ongoing basis.

Independent Contractors:

Independent contractors are not City employees. They may be used in two situations:

- Short-term, peak workload assignments to be accomplished using personnel contracted through an outside temporary employment agency (OEA). In this situation, it is anticipated that City staff will closely monitor the work of OEA employees and minimal training will be required. However, they will always be considered the employees of the OEA and not the City. All placements through an OEA will be coordinated through the Administrative Services Department and subject to the approval of the Administrative Services Director.
- Construction of public works projects and delivery of operating, maintenance or specialized professional services not routinely performed by City employees. Such services will be provided without close supervision by City staff, and the required methods, skills and equipment will generally be determined and provided by the contractor. Contract awards will be guided by the City's purchasing policies and procedures. (See Contracting for Services Policy).

Overtime Management:

- ◆ Overtime should be used only when necessary and when other alternatives are not feasible or cost effective.
- ◆ All overtime must be pre-authorized by a department manager or delegate unless it is assumed pre-approved by its nature. For example, overtime that results when an employee is assigned to standby and/or must respond to an emergency or complete an emergency response.
- ◆ Departmental operating budgets should reflect anticipated annual overtime costs and departments will regularly monitor overtime use and expenditures.
- ◆ When considering the addition of regular or temporary staffing, the use of overtime as an alternative will be considered. The department will take into account:
 - The duration that additional staff resources may be needed.
 - The cost of overtime versus the cost of additional staff. The skills and abilities of current staff.
 - Training costs associated with hiring additional staff.
 - The impact of overtime on existing staff.

PRODUCTIVITY

The City will constantly monitor and review our methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible. This review process encompasses a wide range of productivity issues, including:

- ◆ Analyzing systems and procedures to identify and remove unnecessary review requirements.

Policies and Objectives

- ◆ Evaluating the ability of new technologies and related capital investments to improve productivity.
 - ◆ Developing the skills and abilities of all City employees.
 - ◆ Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
 - ◆ Evaluating the ability of the private sector to perform the same level of service at a lower cost.
 - ◆ Periodic formal reviews of operations on a systematic, ongoing basis.
 - ◆ Maintaining a decentralized approach in managing the City's support service functions. Although some level of centralization is necessary for review and control purposes, decentralization supports productivity by:
 - Encouraging accountability by delegating responsibility to the lowest possible level.
 - Stimulating creativity, innovation and individual initiative.
 - Reducing the administrative costs of operation by eliminating unnecessary review procedures.
 - Improving the organization's ability to respond to changing needs, and identify and implement cost-saving programs.
 - Assigning responsibility for effective operations and citizen responsiveness to the department.
- resources in delivering municipal services as a key element in our continuing efforts to provide cost-effective programs.
- ◆ Contracting with the private sector for the delivery of services provides the City with a significant opportunity for cost containment and productivity enhancements. As such, the City is committed to using private sector resources in delivering municipal services as a key element in our continuing efforts to provide cost-effective programs.
 - ◆ In evaluating the costs of private sector contracts compared with in-house performance of the service, indirect, direct, and contract administration costs of the City will be identified and considered.
 - ◆ Whenever private sector providers are available and can meet established service levels, they will be seriously considered as viable service delivery alternatives using the evaluation criteria outlined below.
 - ◆ For programs and activities currently provided by City employees, conversions to contract services will generally be made through attrition, reassignment or absorption by the contractor.

Evaluation Criteria

Within the general policy guidelines stated above, the cost-effectiveness of contract services in meeting established service levels will be determined on a case-by-case basis using the following criteria:

CONTRACTING FOR SERVICES

General Policy Guidelines:

- ◆ Contracting with the private sector for the delivery of services provides the City with a significant opportunity for cost containment and productivity enhancements. As such, the City is amenable to using private sector
- ◆ Is a sufficient private sector market available to competitively deliver this service and assure a reasonable range of alternative service providers?
- ◆ Can the contract be effectively and efficiently administered?
- ◆ What are the consequences if the contractor fails to perform, and can the

Policies and Objectives

contract reasonably be written to compensate the City for any such damages?

- ◆ Can a private sector contractor better respond to expansions, contractions or special requirements of the service?
 - ◆ Can the work scope be sufficiently defined to ensure that competing proposals can be fairly and fully evaluated, as well as the contractor's performance after bid award?
 - ◆ Does the use of contract services provide us with an opportunity to redefine service levels?
 - ◆ Will the contract limit our ability to deliver emergency or other high priority services?
 - ◆ Overall, can the City successfully delegate the performance of the service but still retain accountability and responsibility for its delivery?
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