

CITY OF LEMOORE

STRATEGIC FINANCIAL POLICY

Purpose:

This policy sets forth and memorializes the long term, strategic financial policies of the City of Lemoore and the Lemoore Redevelopment Agency. This policy is administrative in nature and may be amended as directed by the Lemoore City Council / Redevelopment Agency Board. The overall purpose of this policy is to specify and mandate those concepts that foster, preserve and protect the fiscal stability of the City / Agency.

Applicability:

This policy is directive in nature and binds and affects the City Manager, Department Heads and all City employees. This policy and all financial planning shall be in consonance with the General Plan, and incorporate the principles of conservative, realistic revenue projections and expenditure recommendations, based on prudent growth and economic assumptions.

The Process:

Budget planning begins midway in the fiscal year normally in early February, following audit completion and submission for the previous fiscal year, and a review of the first six months of actual expenditures and revenues for the current fiscal year. The preliminary City / RDA operating budgets are submitted annually no later than June for approval in early July. The City Manager shall schedule appropriate review session(s) and required public hearings.

Budget Controls:

The approved annual operating budget is a planning and program execution tool. It consists of Council approved revenue estimates and expenditure recommendations to carry out the mission of the City.

- ◆ Departmental Budgets are established in the annual Budget and approved by the City Council, and then managed and controlled by the department heads under the overall supervision of the City Manager.
- ◆ Enterprise Funds (Utilities / Municipal Golf Course / LLMD) are also approved by the City Council, then operated as discrete cost / profit centers in accordance with State law and City ordinance.

- ◆ Redevelopment Agency operating / administrative funds are managed in this same manner, and will comply with State Health and Safety Code guidelines.

These operating budgets are controlled at department / enterprise activity level under the overall direction and responsibility of the City Manager. Cost element expenditures are shown in annual operating budgets to serve as Council approved appropriations, and provide internal budget monitoring controls. The City Council may transfer funds from reserves to departments or enterprise activities as deemed appropriate during the fiscal year.

2- Year Capital Program:

The Capital projects planning document is prepared in even years for approval by the Council, and updated in odd years. Capital projects are funded by Impact Fees, operating accounts, grant proceeds, Redevelopment Funds, or bond proceeds.

Reserve Funding Levels:

- ❖ General Fund:

The General Fund will maintain ending cash and receivable balance, including carryover, of at least 15% of the approved annual General Fund operations and maintenance budget. This level is a prudent minimum to maintain the City credit worthiness and reasonably provide for economic uncertainties, cash flow needs, contingencies or natural disasters.

- ❖ Utility Enterprise Funds:

The municipal utility enterprise fund balances shall maintain the following minimum reserves:

Water Fund: An amount equal to at least 25% of the approved annual operating budget. This reserve level is established to provide for prudent support for major, unanticipated or catastrophic fiscal requirements, while also complying with 1995 Bond requirements.

Refuse Fund: An amount equal to at least 15% of the approved annual operating budget. This reserve level is appropriate to support unanticipated fiscal requirements.

Sewer / Storm Drainage Fund: An amount equal to at least 20% of the approved annual operating budget. This reserve fund level is prudent to provide for unanticipated or catastrophic fiscal requirements, as well as to comply with 1995 Bond requirements.

Annually in December, staff will assess the fiscal health of the Utility Enterprise Funds and recommend fee adjustments (if any) appropriate to maintain proper reserve levels, taking into account any debt service requirements, capital project expenditures, and vehicle/equipment replacement plans. Such fee adjustment recommendations may be for increases or decreases.

City Infrastructure / Facility Capital Fund:

The City Council has approved the concept of a long-term general Infrastructure / Facility Capital Fund. This fund will serve as a mandatory “savings account” to accrue discretionary funds for future capital projects, thereby avoiding the need for bonding or borrowing for future capital needs. This fund will be separate and distinct from Impact Fee accounts or Enterprise – funded accounts and shall be annually funded by an amount equal to at least 5% of the combined sales and property tax revenues received by the City during the previous fiscal year. The specific amount to be funded will be included in the annual operation and maintenance budget and approval by Council. Potential uses might be expansion of current facilities, replacement of park equipment, or renovation of existing facilities.

Asset Replacement Accounts:

The City Council has decided to avoid, whenever possible, expensive lease / purchase arrangements for vehicles and equipment. This can be made possible by establishing asset replacement accounts for each City Utility Enterprise Fund and the General Fund. Each year, depreciation is calculated on a straight-line basis for several years, depending on the projected usable life of each piece of equipment or vehicle, for all items that cost \$1,000 or more. Depreciation schedules are determined at the time of purchase and have been examined each year during the City’s audit. An amount equal to the annual depreciation expense for all equipment will be placed into an account each year.

The current financial status of the Water, Refuse, and Sewer/Storm Drain funds will allow this concept to be implemented in the 2001-2002 fiscal year. The General Fund, however, will require a phased approach to building the asset replacement account. In fiscal year 2001-2002, the City will place \$100,000 into the General Fund Asset Replacement Account. All equipment purchases from July 1, 2001 forward will be tracked, and depreciation costs will be added to the General Fund Asset Replacement Account each year, until such time as it reaches \$500,000 at which point it will be fully funded, and treated the same as other equipment replacement accounts. Additionally, any proceeds from the sale of City vehicles and equipment will be placed into the appropriate asset replacement account.

Once established, all equipment and vehicle replacement purchases over \$1,000 will be made out of asset replacement accounts. No more than 50% of any asset replacement fund account balance may be spent during any given year.

These asset replacement funds will be separate and distinct from Impact Fee accounts.

Debt Service Policy:

The policy of the City of Lemoore and its Redevelopment Agency is to incur and service debt obligations in a conservative, prudent manner. Any new debt obligation, consisting of Certificates of Participation, lease purchase obligations, (excluding equipment purchases), issuance of Bonds or Tax Allocation Notes, shall be approved only after a noticed Public Hearing to allow citizen involvement.

A public information process, as deemed appropriate by the Council, will be implemented in each instance before the listed debt obligations are approved by the Council or Agency Board, and will include full disclosure of any planned or potential fee increases for services which may be required to service such debt obligations.

Mandatory Reports:

The Council requires the following reports, consistent with fiduciary responsibility, prudent decision making, and obligation to the citizens of Lemoore:

Monthly Expenditure Reports

Quarterly Investment Reports

Quarterly Revenue Reports

These reports will be prepared by the Finance Director and reviewed by the City Manager for timely presentation to the City Council.