FISCAL POLICIES

BUDGET

The City of Winters is adopting the following policies to guide in the preparation of the City of Winters annual budget.

1. The City shall maintain a balanced budget.
   a. Operating revenues must fully cover operating expenditures, including debt service.
   b. End of year balance carry forwards shall not be used as a continuing method of balancing the budget
   c. Ending fund balances must meet minimum policy levels (50% of expenditures for the General Fund and Enterprise Funds
2. One-time revenues will only be used for one-time expenditures.
3. Budgetary procedures that fund current expenditures at the expense of future needs, such as postponing expenditures, accruing future revenues, or rolling over short –term debt, will be avoided.
4. Structural deficits will be avoided by balancing expected annual revenues with expected annual expenditures.
5. Proceeds from long-term debt will not be used for current, ongoing activities.
6. All revenue forecasts shall be conservative. Revenues projections will be evaluated annually to maintain an error rate of less than 5%
7. All non-salary benefits, such as vacation pay, holiday pay, and educational incentives will be costed out, and their impact on future budgets will be assessed. Cost analysis of salary increases will include the effect of such increases on employer share of related fringe benefits.
8. All compensation negotiations will focus on total compensation: direct salary plus employer share of fringe benefits.

9. Future maintenance needs for all new capital facilities will be fully costed out.
10. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment.
11. Utility rate increases shall be smaller and more frequent (e.g. annually) rather than larger and less frequent.
12. The number and classifications of positions shall be approved in the annual budget. Changes to the number or classification of Full Time Equivalents (FTEs) shall require City Council approval.
13. The City Council will approve the annual budget by resolution that appropriates the funds. New revenue sources and their expenditures identified after the annual budget appropriation must be approved and appropriated by the City Council. Revenues for current sources that exceed their budgeted amounts by more than 10% must be appropriated by the City Council prior to expenditure of those revenues. Expenditures for contract services reimbursed by developers do not require City Council appropriations provided the City Council policies on development reimbursements are followed.

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 projects or other "one-time", non-recurring expenditures.

FINANCIAL REPORTING AND BUDGET ADMINISTRATION

The City of Winters is adopting the following policies to set procedures for monitoring the financial status of the City's various funds and cash flow.

1. **Annual Reporting**. The City will prepare annual financial statements as follows:
   a. The City will contract for an annual audit by a qualified independent certified public accountant City will strive for an unqualified auditor's opinion.
   b. 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.
   c. The City will issue audited financial statements within 180 days after year-end.

2. **Interim Reporting** The City will prepare and issue timely reports on the City's fiscal status to the Council and staff. This includes:
   a. Monthly budget status reports to all Department Heads
   b. Monthly Investment report to the City Council.
   c. Monthly budget status and cash flow reports to the City Council
   d. Mid Year budget reviews
3. **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 has authority to make transfers between account codes and

departments within a fund, except for contingencies, without City Council approval.

GENERAL REVENUE MANAGEMENT

The City is establishing the following policies to guide the City in managing the revenues available for current and future programs within the City of Winters.

1. **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.
2. **Long Range Planning.** The City will institute a five-year projection of revenues beginning in the fiscal year 2003-2004, and will update the projections on an annual basis; therefore, the City will maintain a five-year projection of revenues to assist in long-range financial planning.
3. **Current Revenues for Current Uses.** The City will fund current year expenditures from current year revenues and avoid procedures that balance current budgets by postponing needed expenditures, accruing future revenues or rolling over short-term debt.
4. **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. Such transfers will be subsequently reported to the City Council in budget reports, mid-year adjustment and other fiscal reports.

   Any transfers between funds for operating purposes can only be made during the budget process, as approved by the City Council in the adopted budget, or upon majority vote of the City Council as a budget adjustment. 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 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:

   1. The Director of Financial Management is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved in 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 have been made.
2. The Director of Financial Management is authorized to approve temporary interfund borrowing for the City Wide Assessment District Special Revenue Fund. This fund receives revenues in January and May of each year, while expenditures occur relatively evenly throughout the fiscal year, causing temporary cash shortfalls for the City Wide Assessment District Fund.
3. Any other interfund borrowings for cash flow or other purposes require a case-by-case approval of the City Council.
4. 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 that affect equity by moving financial resources from one fund to another.

USER FEE COST RECOVERY GOALS

The City is establishing the following to guide the City in setting fees for services provided by the City of Winters.

1. **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
2. **User Fee Cost Recovery Levels**
   In setting user fees and cost recovery levels, the following factors will be considered:
   a. **Community Wide vs. Special Benefit.**
      The level of user fee cost recovery should consider the community wide vs. special service nature of the program or activity. The use of general purpose revenue is appropriate for community wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or group.
   b. **Service Recipient vs. Service Driver.**
      After considering community wide vs. special benefit of the service, the concept of service recipient vs. service driver should be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts, that the community is the primary beneficiary. However, the applicant is the driver of the development review costs, and therefore, cost recovery from the applicant is appropriate.
   c. **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 a market that is not overly stimulated by artificially low prices. However, 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.

d. **Feasibility of Collection and Recovery.**
   Although it may be determined that a high level of cost recovery is appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Therefore, 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.

3. **Factors Favoring Low Cost Recovery Levels.**
   Very low cost recovery levels are appropriate under the following circumstances:
   a. There is no intended relationship between the amount paid and the benefit received. Almost all social service programs fall into this category. It is expected that one group will subsidize another.
   b. Collecting fees is not cost effective, or will significantly impact the efficient delivery of the service.
   c. There is no intent to limit the use of (or entitlement to) the service. Again, most social service programs fit into this category as well as many police and fire emergency response services. Access to neighborhood and community parks fit into this category as well.
   d. The service is non-recurring, generally delivered on a peak demand or emergency basis, cannot be planned for on an individual basis, and is not readily available from a private sector source. Many police and fire services also fall into this category.
   e. 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.

4. **Factors Favoring High Cost Recovery Levels**
   a. The service is similar to services provided through the private sector.
   b. Other private or public sector alternatives could or do exist for the delivery of the service.
   c. For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
   d. The use of the service is specifically discouraged. Police responses to false alarms might fall into this category.
   e. 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.

5. **General Concepts Regarding the Use of Service Charges**

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

   a. Revenues should not exceed the reasonable cost of providing the service.
   b. 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, data processing, vehicle maintenance and insurance.
   c. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
   d. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
   e. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

6. **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 that should have user fees associated with them. However, the primary source of funding for the operation should be general purpose revenues, not user fees.

   a. Delivering public safety emergency response services such as police patrol services and fire suppression.
   b. Maintaining and developing public facilities that are provided on a uniform, community wide basis such as streets, parks and general purpose buildings.
   c. Providing social service programs and economic development activities.

7. **Recreation Programs**

   The following cost recovery policies apply to the City's recreation programs:

   a. Cost recovery for activities directed to adults should be relatively high.
   b. Cost recovery for activities directed to youth and seniors should be relatively low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.

      Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities and the cost of determining need may be greater than the cost of providing a uniform service fee structure for all participants. Further, there is a community wide benefit in encouraging high levels of participation in youth and senior recreation activities regardless of financial status.
   c. Cost recovery goals for recreation activities are set as follows:

      High Cost Recovery Activities (60%-100%)

      1. Classes

2. Adult athletics
3. Community Center rentals

Mid Range Cost Recovery Activities (30%-60%)
1. City library room rental
2. Youth sports
3. Outdoor facility and equipment rentals

Low Range Cost Recovery Activities (0%-30%)
1. Public swim
2. Swim lessons
3. Adventure Day Camp
4. Fun in the Park

d. For cost recovery activities of less than 100%, there should be a differential in rates between residents and nonresidents. However, the Recreation Supervisor is authorized to reduce or eliminate nonresident fee differentials when it can be determined that the fee is reducing attendance and that there are no appreciable expenditure savings from the reduced attendance.

e. Absent formalized agreements with youth groups and sports leagues, charges will be assessed for use of the Community Center, ball fields, library rooms and recreation facilities not sponsored or co-sponsored by the City. Such charges will generally conform to the fee guidelines described above.

1. **Development Review Programs**

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

a. Services provided under this category include;
   1. Planning (planned development permits, tentative maps, rezonings, General Plan amendments, variances, use permits.)
   2. Building and safety (building permits and inspections).
   3. Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments)
   4. Fire plan check

b. Cost recovery for these services should generally be very high. In most instances the City's cost recovery goal should be 100%. 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 there is "value for cost"

2. **Comparability With Other Communities**

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

a. Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for several reasons:
   1. They reflect the market for these fees and can assist in assessing the reasonableness of the City's fees.

2. They can serve as a benchmark for how cost effective the City provides its services.

b. Fee surveys should not be the only criteria in setting City fees because many factors affect how communities set their fees, as such, comparing our fees to other communities should only be one factor used to set the City of Winters fees.

ENTERPRISE FUND FEES AND RATES

The City is establishing the following to manage the revenues of the Water and Sewer enterprise funds to provide for current and future operating costs, as well as capital requirements.

1. **Water and Sewer**
   The City will set fees and rates at levels that fully cover the total direct and indirect cost, including operations, capital outlay and debt service of the water and sewer enterprise funds.
2. **Ongoing Rate Review**
   The City will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate and equitable.

REVENUE DISTRIBUTION

The City is establishing the following to provide a manner of distributing revenue sources received by the City of Winters.

The Council recognizes that generally accepted accounting principles for local governments discourage the "earmarking" of General Fund revenues, and therefore, the practice of designating General Fund revenues for specific programs should be minimized in the City's management of its fiscal affairs. The following revenue distribution policies do not prevent the City Council from directing General Fund resources to other functions and programs as necessary.

1. **Property Tax Revenues**
   With the passage of Proposition 13 in 1978, California Cities no longer are allowed to set their own property tax rates. Proposition 13 not only limited the annual increases in market value, it placed a ceiling on voter-approved indebtedness and redefined assessed valuations. Proposition 13 established a maximum countywide levy for general revenue purposes of 1% of market value. Under subsequent state legislation, which adopted formulas for the distribution of this countywide levy, the City now receives a percentage of total property tax revenues collected countywide as determined by the County Auditor-Controller.

The Property Tax revenues received by the City of Winters are General Fund revenues.

2. **Gas Tax Revenues**
   All gas tax revenues (which are restricted by the State for street related purposes) will be used for maintenance and capital projects. The City expends no General Fund revenues for streets and roads and therefore the fund balance of the Gas Tax Fund is allowed to build up for several years before major projects can be funded from these revenues.
3. **Transportation Development Act Revenues (TDA)**
   All TDA revenues will be expended first for the Winters Route of the Yolo County Transportation District, and the remaining unspent revenues will be used in conjunction with the Gas Tax revenue for street and road purposes.

APPROPRIATION LIMITATION

The following policies are established to provide for compliance with the Appropriation Limitation requirement of the California Constitution.

1. The City Council will annually adopt a resolution establishing the City of Winters appropriation 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 appropriation limit.
2. The supporting documentation used in calculating the City's appropriation limit will be available for public and Council review at least 7 days before Council consideration of a resolution to adopt an appropriation limit.
3. 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.
4. The City will seek voter approval to amend its appropriation limit at such time that tax proceeds are in excess of allowable limits.

FUND BALANCES RESERVES

The following are established to provide for a prudent reserve policy for the City of Winters.

The City of Winters has established three types of reserves: Contingencies, Capital Reserves, and Cash and Emergency Reserves.

1. The City of Winters has two Contingency Reserves: General Contingency and CalPERs Contingency.
    a. General contingencies are budgeted in each fiscal year to account for unanticipated expenditures during the year. These are usually smaller amounts and are not for catastrophic emergencies, but rather for unforeseen expenditures at budget time that the City Council deems necessary to allocate funding throughout the fiscal year.
    b. CalPERS contingencies are budgeted in fiscal years that the City is in a surplus or super funded status with CalPERS for contributions for employee retirement plans. These amounts are included as an expenditure in each fund to which they apply, and the amount not remitted to CalPERS is then transferred to a separate fund in anticipation of contract changes resulting in significant increases in CalPERs rates.
2. Capital Reserves have been established for a variety of reserve purposes. Capital Reserves are used to pay for replacement of infrastructure (such as replacing water mains), renovation of existing infrastructure (such as modernizing a City building), and building new City facilities (such as ball fields). The City has three types of Capital Reserve funds:
    a. Impact Fee Reserve Funds are fees collected from development established in accordance with AB1600. The specific projects to be funded from the Impact Fees are established in accordance with AB1600 procedures. These funds may only be used for those identified projects, and if not used for those projects must be returned to the developer. Impact fees are used to accommodate facilities required to accommodate new development within the City of Winters.
    b. Capital Reserves are funds set aside from sources other than development fees to build, renovate, or improve capital assets. Capital Reserves are used for existing or new infrastructure that benefit the community in general. In some cases an improvement is partially funded from Capital reserves, and partially funded by Impact fees. The City Council may designate specific fund balance levels for future development of Capital projects that it has determined to be in the best long-term interest of the City.
    c. An Equipment Replacement fund has been established in the fiscal year 2002-2003 to provide for the timely replacement of vehicles and capital equipment (General Fund assets) with an individual replacement cost of $15,000 or more. The City of Winters will use revenues received from the reimbursement of mandated costs, sale of any surplus equipment and any City Council approved transfer of year end revenues in excess of expenditures to provide a funding source for replacement of vehicles and capital equipment. The City has also established Equipment Replacement funds for both the Water and

Sewer Enterprise Funds in the fiscal year 2002-2003. These equipment replacement funds will account for all assets of the enterprise fund, and the annual amount of depreciation for each asset will transferred as a cash transfer from the individual enterprise fund to its corresponding equipment replacement fund. The City will strive to maintain a fund balance of approximately 20% of the original purchase price of the items accounted for in this fund.

3. Cash and Emergency Reserves-Each year when the City Council approves the annual budget, the budgeted amounts will be appropriated to the various revenue and expenditure accounts in the City's financial system. In the operating funds, the fund balances will be made up of: annual appropriations, money reserves, and unappropriated, unreserved fund balances.
   a. Annual appropriations are the amounts in the annual budget approved by the City Council for expenditure during the budget year.
   b. Money Reserves are funds that are specifically reserved by the City Council as a baseline amount for cash and extreme emergency purposes. To avoid short term borrowing, adequate cash must be maintained to cover ongoing expenses. For example, property tax revenues are received by the City twice per year, but the expenses paid with these revenues are fairly constant each month, thus, the fund must maintain a cash balance sufficient to pay for expenses until the revenues are received.
   c. Unappropriated, unreserved fund balances are also a type of reserve and serve as a cash and/or emergency reserve in each fund. The unappropriated, unreserved fund balances are available to handle the effects of such occurrences as a sudden economic downturn that would result in receiving less revenues than budgeted. (this would give the City time to make appropriate adjustments in subsequent budgets).
   d. Cash and emergency reserves are established for the following operating funds;
      1. General Fund: The money reserve goal is 50% of annual expenditures and the unappropriated, unreserved end of year estimated fund balance goal is 25% of annual expenditures.
      2. City Wide Assessment District: The unappropriated, unreserved end of year estimated fund balance goal is 75% of annual expenditures.
      3. Water Enterprise Fund: The unappropriated, unreserved end of year estimated fund balance goal is 50% of annual expenditures. This goal is in addition to transferring adequate funds to meet any City Council directed Water Capital Reserve requirements
      4. Wastewater Enterprise Fund: The unappropriated, unreserved end of year estimated fund balance goal is 50% of annual expenditures. This is in addition to any City Council directed Wastewater Capital Reserve Requirements.

In addition to the designations noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year, debt service requirements, reserves for encumbrances, and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.

CAPITAL IMPROVEMENT MANAGEMENT

The following is established to provide for the management of Capital equipment purchases and Construction projects.

1. Construction projects and equipment purchases which cost $15,000 or more will be included in the Capital Improvement Plan (CIP). Minor equipment purchases of less than $15,000 will be included in the operating budget.
2. 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 budget. The CIP will reflect a balance between Capital replacement projects that repair, replace, or enhance existing facilities, equipment or infrastructure that significantly expand or add to the City's existing fixed assets.
3. Each 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.
4. The City's annual CIP appropriations for study, design, acquisition and/or construction is adopted through the annual budget process. Having the project appropriations included in the annual budget does not automatically authorize the project for funding. The project is approved for funding when the City Council has reviewed and approved costs for each phase of the project.

CAPITAL FINANCING AND DEBT MANAGEMENT

The following is established to provide for the basis of when debt financing may be appropriate for the City of Winters, management of the debt, and the establishment of a debt capacity for the City.

1. The City will consider the use of debt financing only for one time capital improvement projects and only under the following circumstances;
    a. When the projects useful life will exceed the term of the financing.

b. When the project revenues or specific resources will be sufficient to service the long- term debt.

2. 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 tax revenue bonds or bond anticipation notes is excluded from this limitation.
3. 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 have been created and implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary community facilities.
4. The City will use the following criteria to evaluate pay as you go vs. long term financing in funding capital projects;
   A. Factors favoring pay as you go financing:
      1. Current revenues and adequate fund balances are available or project phasing can be accomplished.
      2. Existing debt levels adversely affect the City's credit rating.
      3. Market conditions are unstable or present difficulties in marketing.

   B. Factors Favoring Long Term Financing
      1. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
      2. The project securing the financing is of the type, which will support an investment grade credit rating.
      3. Market conditions present favorable interest rates and demand for City financing.
      4. A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
      5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
      6. The life of the project or asset to be financed is 10 years or more.
5. <u>Debt Management:</u>
   a. The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.
   b. 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.
   c. 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.
   d. The City will seek an investment grade rating (BAA/BBB or greater) on any direct debt and will seek credit enhancements such as letters of

credit or insurance when necessary for marketing purposes, availability and cost effectiveness.

e. The City will monitor all forms of debt annually coinciding with the preparation of the annual budget.
f. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
g. 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).

6. Debt Capacity:
   a. General Purpose Debt Capacity. The City will carefully monitor its level of general purpose debt. General purpose debt capacity is limited, and should only be used for high priority projects where other financing methods cannot be reasonably used.
      1. General purpose funds committed to a project are not available for funding operations
      2. In evaluating debt capacity, general purpose debt service payments will not exceed 10% of General Fund Revenues
   b. 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.

7. The City will retain a Financial Advisor in connection with any debt issuance.