

Town of Tiburon, California Financial Policies

i. Purpose

The financial integrity of our Town government is of the utmost importance.

Since incorporation in 1964, many Town financial policies have evolved and are found in a number of sources, including: ordinances, resolutions, as well as internal and informal memoranda and policies, some of which have not recently been discussed nor officially adopted. The compilation of the policies proposed herein will have the benefit of assisting the Town Council and Town Manager in the proper financial management of the Town, and ensuring consistency and continuity in approach as Council and Staff members change. These policies will also provide a foundation and framework for many of the decisions that the Town will address. Sound financial management policies promote stability, efficiency, and effectiveness.

ii. Contents

These policies are incorporated into the following categories for reference:

1. Financial Reporting, Accounting Standards, and Annual Auditing
2. Reserves
3. Capital Improvements
4. Revenues
5. Operating Budget
6. Debt Management
7. Investment

1. FINANCIAL REPORTING, ACCOUNTING, AND AUDITING POLICIES

Financial Reporting

It shall be the policy of the Town to provide all financial information in a timely manner, and in a format that Council, Residents, and Staff will find meaningful.

The Director of Administrative Services shall prepare a mid-year interim financial report for presentation to Town Council at a public meeting. Such report shall be issued and ready for public hearing at the second Council Meeting following the close of the fiscal mid-year, December 31st. Report information shall include current status and best projections of the revenues and expenditures of the Operating Budget, Capital Improvement Program, and all other Fund Resources of the Town.

Accounting Standards

The Town's financial accounting system shall be maintained in accordance with General Accepted Accounting Principles (GAAP), standards of the Government Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).

Annual Audit

The Town will have an independent public accounting firm perform an annual audit of the Town's financial statements for the fiscal year (a Fiscal Year comprises a twelve-month period from July 1 to June 30). A Comprehensive Annual Financial Report shall be completed within six months following the close of the previous fiscal year (ended June 30th). The final report and recommendations of the auditor shall be presented to the Town Council at a public meeting.

2. RESERVE POLICIES

Introduction

The Town utilizes many accounting funds to record the revenues and expenditures of the operating budget, capital improvement program, and debt service plan. At fiscal year-end, appropriated expenditure authority lapses, with the exception of capital project, debt service, and operating expenses that may have been incurred but not paid, and thus are encumbered. The remaining resources left in each fund constitute available reserves of the Town. It is appropriate that reserve policies be established for these various funds, and that the purpose of these reserves be designated, in order that resources in excess of established guidelines be effectively utilized.

General Fund Unallocated Reserve

Town Policy is to maintain a contingency reserve for operating expenditures for the purpose of mitigating the effects of unanticipated occurrences such as the following:

- economic downturn
- loss of revenues to, or imposition of additional costs by, other government agencies.
- natural disaster
- error in financial forecasts and projections

This contingency reserve also provides Town Council with flexibility to authorize additional operating expenses without utilizing other reserve resources.

The General Fund Unallocated Reserve shall be maintained in an amount no less than twenty five percent (25%) of the General Fund Operating Expenditure Budget.

Capital Equipment Replacement Reserve

The Town shall continue to maintain a reserve to provide a source of capital for acquisition and/or replacement of department operating equipment.

This reserve is funded through the combined use of periodic fund transfers and a calculated annual depreciation allowance that is charged to operating department budgets. In recent years the Town has funded this reserve at a level equivalent to at least one annual depreciation allowance (approximately \$132,000). This level is maintained or exceeded to the extent that fiscal conditions permit. It is proposed that the Town strive to fund this reserve at a minimum level equal to one annual depreciation allowance.

Employee Compensated Leave Reserve

The Town shall continue to maintain a reserve for payoff of compensated leave accruals of employees of the Town. Independent auditors have recommended that the Town provide reserve coverage for this liability as fiscal conditions permit. In recent years, the

Town has funded approximately 75% of the combined liability for accrued vacation and sick leave. It is proposed that the Town strive to maintain a minimum reserve balance that is equal to the lesser of 10% of annual payroll or 75% of the estimated leave liability at fiscal year-end.

Employee Housing Assistance Reserve

In Fiscal Year 2001 the Town established an Employee Housing Assistance Reserve fund. This reserve provides an initial source of capital for staff housing assistance. Policies surrounding the specific use of these funds remain incomplete at this time.

Self Insurance Reserve

The Town shall continue to maintain a self-insurance reserve for liability, property, workers' compensation, and public officials' errors and omissions policy expenses. This reserve may also provide contingency coverage for associated legal service costs.

It has been Town policy to maintain a minimum reserve balance equivalent to three liability insurance deductible occurrences (currently at \$50,000 per incident for a total of \$150,000). It is proposed that the Town strive to maintain a reserve balance equal to the lesser of \$200,000 or the combined sum of the above-referenced insurance premium requirements.

Storm Damage Reserve

The Town established this reserve to provide contingency funding for storm damage to the Town's streets, drainage, parks and other infrastructure facilities. It is proposed that the Town maintain this reserve to the extent fiscal conditions permit.

Other Reserves

The Town has maintained the following reserves for various capital projects and other specific improvement purposes:

- Capital Outlay Reserve
- New Police Building & EOC Reserve
- New Public Works Building Reserve
- Park Development Reserve
- Streets & Drainage Reserve

The available non-encumbered resources of these reserve funds shall be transferred and consolidated into a new **Capital Projects Reserve Fund**. The proposed consolidation will simplify the capital improvement planning process, and facilitate more simplified financial reporting of the Town's capital improvement program.

Capital Projects Reserve

The Town shall maintain this reserve to provide an additional source of capital for improvement and repair of Town infrastructure. Resources of this reserve may supplement the resources available in the Town's non-discretionary capital project funds, including:

- Flood Plain Maintenance & Restoration Fund
- Low & Moderate Income Housing Fund
- Marsh Maintenance & Restoration Fund
- Open Space Acquisition Fund
- Property Development Tax Fund
- State Gas Tax Fund
- Tiburon Circulation System Improvement Fund
- Tiburon Parks In-Lieu Fund
- Tiburon Planning Area Mitigation Fund
- Tiburon Street Impact Fund

The Town shall maintain and capitalize this reserve to the extent that fiscal conditions permit.

3. CAPITAL IMPROVEMENT PROGRAM POLICIES

Funding Sources

The Town's Capital Improvement Program is funded through a combination of General Fund reserve resources and specific revenues that are designated for improvements and uses as prescribed by government regulation, including federal, state or county law, as well as Town Ordinance or Municipal Code. The Town strives to further augment the Capital Improvement Program through grant funding.

Capital Improvement Program Planning

The Town shall annually prepare a capital improvements spending plan that incorporates projections of capital needs for five years. Such projections shall include ongoing assessment of the following infrastructure items: the street pavement system; traffic circulation system; storm drains; sidewalks, curbs and gutters; park facilities, paths and trails, open space lands; slope stability; the street and signal light system; and maintenance of the Railroad Marsh.

In the development of the spending plan, engineering cost estimates shall incorporate all operating and planning costs associated with each capital improvement.

The Five-Year Plan shall be revisited and updated annually.

The Capital Improvement Program is not a spending program, it is a Plan. The Capital Improvement Plan is to be funded, as resources become available, not as a component part of the Operating Budget.

4. REVENUE POLICIES

Introduction

The Town shall strive to develop a diversified revenue base in order to support the operating budget program, and avoid dependence on any single revenue source.

General revenue projections shall be estimated conservatively, employing generally accepted standards. Where appropriate, Staff shall utilize and consider estimates provided by the state, county, local government entities, or other regional agencies

Efforts shall be directed toward optimizing existing revenues, and proposing and evaluating potential sources of revenue.

One-time revenues, or revenues of limited or short-term duration, shall not be the basis of a balanced operating budget.

Fees & Charges for Service

Such fees and charges shall be evaluated annually and, if necessary, adjusted to assure that they will recover all direct and indirect costs. Such fees and charges shall also comply with all statutory requirements. Proposed changes to fee schedules are submitted to Town Council for approval.

Grants & Gifts

The Town shall actively pursue federal, state, county, and other grant opportunities to support capital equipment and capital improvement programs. Grant applications shall be presented to Town Council for approval prior to submittal to the appropriate agency.

Development, Mitigation & Public Improvement Fees

The Town imposes a wide range of fees that are intended to fund the acquisition, construction, maintenance or improvement of public facilities and infrastructure in Tiburon. Many of these fees are established in accordance with the goals and objectives of the General Plan. Others have been established to mitigate the current and future impact of development and construction throughout the Town.

The Town shall periodically review such fees to ensure that they are sufficient to finance the current and future public improvement costs associated with establishment and imposition of the fees.

The Town shall, in conjunction with capital improvement planning, explore the feasibility of imposing additional such fees to recover direct and indirect costs for the purpose of financing the Town's unfunded infrastructure maintenance and improvement needs.

5. OPERATING BUDGET

Budget Plan

The operating budget serves as the financial plan for the Town, and as the policy document of the Council for implementing Council goals and objectives. The budget shall provide Staff with the resources necessary to provide the service levels that are associated with accomplishing these goals.

Balanced Budget

The Town shall annually adopt a balanced budget where operating revenues are equal to, or exceed, operating expenditures. Any significant decreases in revenues or increases in expenditures, or a combination thereof, that results in a budget imbalance will require revision of the budget, rather than appropriation of reserves to support general operations.

Budget Document

The Town Manager shall administer the preparation and presentation of the municipal budget plan to Town Council. The budget document will be presented by department and division, with a description of the sources of funding for each operating component. The document shall include summarized expenditure information for each department and division that outlines the costs of personnel, supplies and materials, professional services, and capital outlay costs.

Wherever possible, budget programs that are not readily identified or categorized as a capital improvement or associated with debt service should be incorporated into the operating budget plan.

Budget Control & Accountability

The Town Manager oversees administration of the budget. At the direction of the Town Manager budget control is maintained by the Administration Department. The Director of Administrative Services shall monitor department expenditures and provide Department Heads with regular financial statements and information that will enable Department Heads to administer their respective budgets.

The Town Manager shall have the authority to transfer appropriations between or among departments or programs, providing that there is no net increase in the total appropriation amount approved by Town Council.

Expenditures for goods, services, equipment, or improvements not included nor specified in the adopted budget plan will require Council approval and amendment of the budget.

At fiscal year end unencumbered monies that comprise operating surpluses will revert to unappropriated status for use in maintaining reserve levels set by policy. These balances

are available for operating or capital improvement program requirements as approved by Town Council.

6. DEBT MANAGEMENT POLICIES

Issuance of Long-Term Debt

The Town will not use long-term debt to finance current operating expenditures.

The use of bonds, certificates of participation, or other instruments of indebtedness may be used for the purpose of financing significant capital improvement projects and infrastructure improvements.

The term of the debt issued shall not extend beyond the normal expected life of the improvements that are to be financed.

The Town may consider lease-purchase of high-cost items of equipment if lease interest rate costs are less than the rate of return the Town may realize on its invested funds. In no case should the term of lease debt extend beyond the expected life of the equipment.

Issuance of Short-Term Debt

The Town may consider incurring short-term operating debt, typically Tax and Revenue Anticipation Notes (TRANS), to bridge short-term cash flow shortfalls that may arise. The expenses associated with regular operations are normally covered by current revenues. However, because the Town receives the majority of its property tax revenues at two times during the year, and other revenues may fluctuate during the year, the Town may experience temporary cash shortfalls that may be financed.

The amount of short-term debt will be based on cash flow projections for the year, and the debt will be repaid in one year or less. The interest cost of this debt should be equal to, or less than the rate of return the Town realizes on its invested funds.

Debt Administration

The Town will utilize outside bond counsel, investment banking, financial advisory, and underwriting services to ensure that the debt is issued in accordance with all State and federal regulations concerning bond provisions, covenants, taxation, and disclosure.

The Town shall ensure that current and future costs incurred by the Town, such as, but not limited to, bond counsel, financial advisory and underwriting services, bond issuance, project design and construction costs, fiscal and paying agent services, and assessment district administration - will be charged to the bond issue to the extent allowable by law.

The Town will utilize outside professional services to administer the debt service, bond reserve, and assessment district requirements of the bonds.

The Town will monitor revenue sources of the bonds to ensure that current and anticipated collections are sufficient for scheduled debt service payments.

The Town will monitor economic conditions in consideration of possible refunding or refinancing of bonds to reduce interest costs or principal outstanding, or to eliminate restrictive debt covenants. Pooled financings with other government agencies may be considered, where appropriate.

7. INVESTMENT POLICIES

Town funds invested in accordance with the Town's adopted Investment Policy Statement. and shall be managed prudently with emphasis on safety, liquidity, and yield, in that order.

The Town Council shall periodically review, update, or modify, as appropriate, the Town's Investment Policy Statement.

The Director of Administrative Services shall provide monthly reports to Town Council concerning the Town's investment portfolio and cash position. These reports shall include information concerning the type of investment, the repository of invested funds, interest rates, the term of purchased investments.