



Administrative Policy Manual
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SUBJECT: FINANCIAL AND BUDGET MANAGEMENT

1. **PURPOSE:** To establish policies and procedures that enforce consistent and reliable management of the City's finances and ensure that the City is financially able to meet its immediate and long-term service objectives.
2. **SCOPE:** The City hereby establishes policies and procedures to promote sound and consistent financial management in all fiscal and budgetary matters. References to the "City" in this policy shall be deemed to incorporate the Redevelopment Agency of the City of Indio and the Indio Water Authority, and references to the City Council shall be applicable to the legislative body of these agencies. In addition, references to the "city manager" shall be applicable to the city manager, executive director of the Redevelopment Agency and Water Authority, or his/her designee.
3. **GENERAL POLICY:** The City of Indio is accountable to the community for the use of public funds. Municipal resources will be used wisely to ensure adequate funding for the services, public facilities and infrastructure necessary to meet the community's present and future needs. Financial management policies serve as the blueprint to maintain the fiscal stability required to meet the City's goals and objectives. In order to provide a foundation for sound fiscal decisions and to ensure that the City is able to meet its immediate and long-term objectives, financial and budgetary policies are expected to:
 - a. Guide policy decisions that have fiscal impact
 - b. Support long-term planning and forecasting
 - c. Maintain and protect city assets and infrastructure
 - d. Establish internal controls that minimize the financial risk to City assets
 - e. Optimize services to reduce costs and improve service quality
 - f. Cultivate practical revenue forecasting that provides realistic funding for programs
 - g. Maintain financial stability and sufficient financial capacity for present and future needs
 - h. Provide accurate and timely financial reporting
 - i. Maintain and enhance the City's credit ratings
 - j. Prevent default on municipal financial obligations

4. **AFFILIATED AGENCIES:** A number of agencies have been created through City Council action, intergovernmental agreements, and state and federal laws. These agencies are affiliated with the City of Indio and should be managed with the same financial standards as City agencies. To protect the City's fiscal status and avoid an adverse effect on the City, affiliated agencies will be accountable for financial compliance and reporting standards as described in the City's financial management policies. The City may audit financial records or performance data to ensure funds are spent in accordance with City Council directions and policies. Affiliated agencies include, but are not limited to, agencies created by Council action, agencies with leadership appointed by the City Council and agencies that receive a majority of funds from the City.
5. **RESPONSIBILITY:** The city manager issues, oversees, and administers all City policies. The finance director has the responsibility to review, develop and implement financial and budgetary policies. City department heads will ensure that their departments comply with City policies and procedures.
6. **ACCOUNTING PRACTICES AND CONTROLS:**
 - 6.1. An accounting system adequate to provide management information and meet reporting requirements shall be maintained. Accounting process and procedures will be in accordance with generally accepted accounting principles as defined by the Government Accounting Standards Board.
 - 6.2. A system of effective internal controls will be maintained that assures only properly authorized financial transactions are executed.
 - 6.3. Financial reports should be prepared and presented to the City Council quarterly, at a minimum, for the first three quarter of the fiscal year.
 - 6.4. The City's financial records will be audited annually by an independent accounting firm as required by the State.
 - 6.5. A Comprehensive Annual Financial Report (CAFR) shall be prepared each year within six months of the close of the previous fiscal year. The CAFR will be presented to the City Council.
 - 6.6. The CAFR shall be prepared in accordance with generally accepted accounting principles applicable to local governments.
 - 6.7. The "Management Letter" presented by the City's independent accounting firm will be presented, with City staff's comments if applicable, to the City Council.

7. FINANCIAL PLANNING:

- 7.1. The Finance Department will be responsible to create and maintain a five-year financial forecast, to include basic economic assumptions.
- 7.2. The forecasts will identify assumptions used and any associated risks. Examples of risks can include rates, legislation and legal rulings that affect City liability, pension systems or health benefit plans, as well as regional economic trends that affect City revenues.
- 7.3. Five-year financial plans will be prepared annually for the General Fund.
- 7.4. Forecasts will include predictable changes to service levels and reliable changes in available resources. Plans will identify additional resources or service-level reduction needed to sustain consistent operational service levels.
- 7.5. Departments will forecast and monitor their own revenues and expenditures. The Finance Department will assist departments in developing appropriate systems; will retain fiscal oversight responsibility for the General Fund.
- 7.6. Proprietary fund forecasts will identify any impact on rates. The forecasts will discuss how standards for debt service coverage and operating reserves are established and maintained. Departments will prepare and coordinate with the Finance Department on the presentation of regular status reports on revenues and expenditures.

8. BUDGETING:

- 8.1. The city manager will present a recommended budget to the City Council for consideration and adoption. The recommended budget will identify major financial and service issues, include funding requirements and sources of funds, provide supplemental information on programs and service areas, contain budget detail for all City organizations, and relate planned expenditures to the City's vision and goals.
- 8.2. The recommended budget shall be prepared by City staff and submitted to the City Council prior to budget hearing each year.
- 8.3. The adopted budget shall serve as the annual financial plan for the City. This financial plan shall include City goals and objectives, and set the level of services determined by the City Council to be appropriate and financially sustainable.

- 8.4. A balanced general fund budget will be adopted annually, whereby operating expenditures shall not exceed available resources.
- 8.5. The City Council should adopt an annual operating budget before the fiscal year begins; by the first of July each year.
- 8.6. Quarterly budget status reports will be presented to the City Council within 60 days of the end of each quarter during the fiscal year: for quarters ending in September, December, and March. For each report, departments will provide an internal analysis to the Finance Department on how expenses and revenue are trending in relation to budget targets. Departments will also communicate any potential issues that could cause revenue or expenses to vary from budget targets.
- 8.7. The city manager or his/her designee shall have discretion to make budget adjustments within a department's operating budget as long as that adjustment does not increase overall department spending authority.
- 8.8. All budget adjustments that increase spending authority shall be submitted to the City Council for approval.
- 8.9. Departments will monitor their own revenues and expenditures. The Finance Department will assist departments in developing appropriate systems, and will retain fiscal oversight responsibility.
- 8.10. The adopted budget should provide sufficient funding for adequate operations, maintenance, scheduled replacement and enhancements of capital assets and equipment. Whenever departments identify that there is a significant discrepancy between the need to maintain or modernize City infrastructure or facilities and the funds available for such improvements, the city manager will present a strategy for meeting these needs to the City Council.

9. REVENUE:

- 9.1. The development and maintenance of diversified and reliable revenue streams will be the primary revenue policy of the City. The City will focus its efforts to optimize existing revenue sources while periodically reviewing potential new revenue sources.
- 9.2. Revenues will be projected for the upcoming budget year as well as for four subsequent fiscal years, and will be presented to the City Council in each quarterly budget report.
- 9.3. Revenues will be estimated conservatively using information provided by the state, other governmental agencies, professional economists, and other

relevant sources. The basis for revenue forecasts will be disclosed in the recommended budget.

- 9.4. Sources of revenue will be evaluated regularly to determine their applicability and relevance to City needs.
- 9.5. Unless otherwise stated explicitly by the City Council, the City will not dedicate discretionary revenues for specific purposes in the general fund. This will preserve the ability of the City Council to determine the best use of available revenues to meet changing service requirements.
- 9.6. Revenue Surpluses: Non-general fund departments shall retain all excess department-generated revenue. Surpluses above the budgeted revenue estimate will be available to the department for appropriation through the budget process. Additional appropriations will be used for activities that support the function or program generating the additional fees.
- 9.7. Revenue Shortfalls: Department revenue shortfalls could result in the reduction of department appropriation levels. In the event current fiscal year revenue is projected to less than budgeted amounts, the department is required to document other offsetting revenue or reduce its budget appropriately. The reduction shall be equal to resources above revised expectations. Unbudgeted discretionary revenue, unreserved fund balance/net assets, or appropriations for contingency may be utilized to cover revenue shortfalls and appropriation reductions with City Council approval.
- 9.8. The City will use and obtain resources according to the following principles:
 - a. The City will use as efficiently as possible the resources that it already collects
 - b. The City will collect as efficiently as possible the resources to which it is already entitled
 - c. The City will seek new resources, consistent with its financial policies and City goals
 - d. The City will strive to keep a total revenue mix that encourages growth
 - e. The City will enforce its authority to collect revenue due the City, including litigation if necessary.
- 9.9. The City will avoid using grants to meet ongoing service delivery needs. Prior to submitting a grant application, or acceptance if an application is not required, all grants will be reviewed by the Finance Department to ensure compliance with state, federal and City regulations. The City will budget grant-related expenditures only to the amount of each grant award that can realistically be expended within the fiscal year. Budget adjustment must be approved by the City Council.

9.10. One-time funds are resources designed to be used for projects and purchases that can be accomplished within the fiscal year and are not reoccurring in nature. One-time funds may be used for ongoing expenditures for one year to prepare a plan for ongoing funding, or for two years under an adopted financial plan, to transition to ongoing funding or reduced services. One-time funds may also be used for a two-year pilot program, including related limited term positions; the program must establish and report on performance measures each year and, if needed, develop a long-term funding plan. One-time funds may be committed for up to three years for a capital project or a significant planning effort that has a finite duration of three years or less. Such funding commitment shall be noted in the city manager's recommended budget.

10. SERVICE FEES

10.1. City services that benefit a specific user and where quantity, quality, and number of units can be specified should be paid for by fees and charges. With the sole exception of services provided in the operation of any enterprise, the City's objective in setting fees and charges for services is to achieve a reasonable level of cost recovery for services that are not provided to, or do not benefit, the community as a whole.

10.2. All departments charging fees are required to complete fee studies based upon cost-of-service principles. These studies are to be updated at a minimum of every two years and provided to City Council prior to submission of the recommended budget. Departments that provide water and solid waste services will update their fee studies in their annual rate ordinances.

10.3. The fee studies and structures will take into account:

- a. The degree to which a service provides a general benefit in addition to the private benefit provided to a specific business, property, or individual
- b. The economic impact of new or expanded fees, especially in comparison with other governments within the Coachella Valley
- c. The true or comprehensive cost of providing a service, including the cost of fee collection and administration
- d. The impact of imposing or increasing fees on economically at-risk populations and businesses
- e. The overall achievement of City goals

11. EXPENDITURES AND APPROPRIATIONS

11.1. City services and operations will be provided in an efficient manner with the objective of delivering the highest level of service possible at the lowest possible cost.

- 11.2. Expenditures will be projected for the upcoming budget year as well as for four subsequent fiscal years, and will be presented to the City Council in each quarterly budget report.
- 11.3. Expenditures will be estimated using information provided by the state, other governmental agencies, professional economists, and other relevant sources. The basis for expenditure forecasts will be disclosed in the recommended budget.
- 11.4. Good internal controls will be maintained at the department level so that only properly authorized expenditures are made. The Finance Department will assist and provide oversight.
- 11.5. Expenditures will be controlled at the fund and department appropriation level and will not exceed City Council-approved appropriation limits (i.e. salary and benefits, services and supplies, other expenses, capital asset purchases) unless authorized by the city manager. Department must obtain city manager approval before any payments that exceed adopted budget limits, other than for employee payroll, will be processed by the Finance Department. Expenditures approved by the city manager that exceed department approved appropriation limits, which can not be balanced administratively through a transfer of appropriations within the department budget unit, will be reported to the City Council.
- 11.6. Appropriations lapse at the end of the fiscal year to the extent that they have not been expended or encumbered.

12. CONTINGENCIES AND RESERVES

- 12.1. In the general fund a contingency should be budgeted at a level equal to five percent of that funds operating discretionary revenue, which shall be used:
 - a. For City Council approved expenditures not appropriated during the annual budget process;
 - b. To cover unanticipated revenue shortfalls;
 - c. In situations of extreme physical or financial emergency (with the approval of the City Council); and,
 - d. As a funding source for interfund loans and other loans or advances from the general fund as approved by the City Council. Such loans and advances should accrue interest earnings for the general operating fund and include principal repayment to the extent possible.
- 12.2. Reserves that affect the financial stability and credit worthiness of the City, such as general fund reserves, will be maintained to the degree financial stability and credit worthiness are unaffected to the greatest extent possible.

- 12.3. A general fund emergency reserve should be maintained at a level equal to 10 percent of that funds ongoing discretionary revenue. Funds from this reserve are to be used only for qualifying emergencies as declared by the Mayor and/or City Council.
- 12.4. A compensated absences reserve should be maintained in the general fund in anticipation of funding disbursements of terminated or retired employees for accrued vacation and sick leave. This reserve shall be funded in an amount sufficient to fund the accrued liabilities of the City for compensated absences such as vacation, administrative leave, and vested sick leave. Fund equity should be adjusted annually to capture changes in accrued benefits and employee rates of pay.
- 12.5. A workers' compensation reserve should be maintained at a level deemed adequate to meet projected liabilities.
- 12.6. A retirees' health insurance reserve should be maintained at a level deemed adequate.
- 12.7. Replenishment of Reserves: The following criteria should be used to restore reserves based upon the remaining reserve balance compared to the respective maximum reserve guideline:
 - a. If a reserve is drawn down below 75 percent of the maximum, then a budgetary plan shall be implemented to return the reserve level to 100 percent of the maximum over a 5 to 7 year period.
 - b. If a reserve is drawn down below its midpoint target balance, then the budgetary plan to restore the reserve shall be structured over a 3 to 5 year period.
 - c. If the reserves are drawn down below the minimum of the range, then a solution to replenish that reserve shall be structured over a 1 to 3 year period.

13. DEBT MANAGEMENT

- 13.1. The City shall seek to maintain and, if possible, to improve its current bond rating so borrowing costs are minimized and access to credit is preserved. It is imperative that the City demonstrate to rating agencies, investment bankers, creditors, and taxpayers that City officials are following a prescribed financial plan. The City will follow a policy of full disclosure by communicating with bond rating agencies to inform them of the City's financial condition.
- 13.2. Every future bond issue proposal will be accompanied by an analysis provided by the proposing department, demonstrating conformity to the debt policies adopted by City Council. The Finance Department will review and comment on each bond issue proposal regarding conformance with existing

debt and financial policies, and specific aspects of the proposed financing package and its impact on the City's creditworthiness.

- 13.3. Long-term borrowing will be restricted to the funding of capital improvement projects and equipment. The use of long-term borrowing for ongoing operations shall be avoided.
- 13.4. The term of the debt shall not exceed the expected useful life of the capital improvement project or equipment.
- 13.5. Debt obligations will be met in a timely and efficient manner.
- 13.6. The City will comply with all debt covenants.
- 13.7. Refunding techniques will be used where appropriate to allow for the restructuring of its current outstanding debt to remove or change restrictive covenants, and to reduce annual debt service in an amount sufficient to justify the costs of the refunding and reissuance.

14. CASH MANAGEMENT

- 14.1. The City will follow modern cash management practices that require active revenue oversight, prompt collection, and timely deposit of all funds, which maximizes the amount of invested cash balanced with the timely payment of obligations.