

BUDGET AND FISCAL POLICIES

I. Financial Strategic Plan Purpose and Organization

A. Annual Operating Budget (AOB)

Through its Annual Operation Budget, the City will link resources with results by:

1. Identifying community needs for essential services that improve quality of life through strategic planning that:
 - a. Organize the programs required to provide these essential services;
 - b. Establish program policies and goals, which define the nature and level of program services required;
 - c. Identify activities performed in delivering program services.
2. Proposing goals for improving the delivery of program services that:
 - a. Identify and appropriate the resources required to perform program activities and accomplish program goals.
 - b. Set objectives to measure Performance (progress) pertaining to:
 - Long term goals that align Council priorities with financial resources;
 - Output of program activities;
 - Accomplishment of program objectives;
 - Expenditure of program appropriations.
3. The AOB process encompasses the development, implementation, and evaluation of a plan for the provision of services for the upcoming fiscal year. The process includes political, managerial, planning, communication, and financial dimensions. The budget incorporates a long-term perspective, establishes linkages to broad organizational goals, and focuses budget decisions on desired results and outcomes. The AOB is formalized via the following process:
 - a. A budget workshop is held with the City Council to receive Council direction and public comment, prior to budget preparation;
 - b. Budget team updates policies and procedures for budget preparation, creates the budget process calendar, and prepares the current budget schedules for each department to use in preparing the new budget;
 - c. A budget kickoff workshop is held with the City Manager, Department Directors, and Department Analysts to discuss the status of the current fiscal year budget, discuss the Five-Year Financial Forecast, review the upcoming budget process calendar, discuss the impacts of the current economic conditions at the State and Federal levels, and discuss the essential principles and elements of the budget process;
 - d. Individual meetings are held with the budget team and each department to assist in the budget development process;

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- e. The City Manager, in collaboration with the budget team, holds reviews each department budget request and makes recommendations to include in the proposed budget;
- f. A budget workshop is held with the City Council to receive public comment and to review the components of the proposed budget, prior to formal consideration for adoption;
- g. City Manager submits the proposed AOB and salary plan to the City Council at a public meeting for approval.

B. Balanced Budget

The City will strive to maintain a balanced budget over the Five-Year Financial Forecast, by meeting the following targets:

1. Operating revenues must fully cover operating expenditures;
2. Ending fund balance must meet minimum policy levels. For the General Fund, this level has been established at 20% of operating expenditures for economic uncertainties and to support the City's credit worthiness, cash flow, and response to local disasters.

C. Five-Year Financial Forecast

The City will prepare a five-year financial forecast bi-annually to assist in long range planning and policy development. The five-year forecast provides a tool to evaluate the ability of the City to fund proposed programs, operating and maintenance costs, capital expenditures, as well as operating costs related to future capital improvement projects.

1. Revenues are projected using a realistic approach, and are based on historical trends, stable residential development projections, internal analysis, and commercial growth that incorporates known development projects. Separate sets of assumptions are developed for major revenue types such as sales tax, property tax, community development fees, transient occupancy taxes, and investment income;
2. Departmental expenditure projections are developed using anticipated cost of living increases for general administrative operating costs. Additional assumptions are incorporated for major expenditure categories such as public safety to ensure that commercial and residential growth projections are addressed to main current service levels. The five-year capital improvement program is reviewed with the annual operating budget, and maintenance costs of each proposed project are identified and included in the forecast;
3. The five-year forecast indicates whether projected revenue growth will support anticipated expenditures for current levels of service. However, as the City continues to grow, it is important to ensure that it can meet increasing demands and be in a position to respond to possible changes in economic conditions. The five-year forecast is a dynamic tool that requires bi-annual update and review of its underlying assumptions to keep the City in a position of strong fiscal condition.

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D. Capital Improvement Program (CIP)

1. CIP Purpose - The purpose of the Capital Improvement Program (CIP) budget document is to serve as a planning tool, which coordinates the level ranking, financing, and scheduling of major projects undertaken by the City. All projects presented in the five-year CIP budget are carefully programmed to ensure the community's capital improvement needs are met both now and in the future. In addition, the projects provide additional opportunities and access to the City and improve the overall quality of life as identified in the Quality of Life Master Plan (QLMP).

This document is dynamic and must be revised annually to address changing needs, level rankings, and financial conditions. The City's goal in providing a CIP Budget is to develop a multi-year plan for capital improvements, update it annually, and follow through with all capital improvements in accordance with the plan. It also allows staff to budget operating and maintenance costs into the five-year projection in order to determine the total cost of each project before it is undertaken.

2. CIP Development - This CIP budget document is developed by incorporating input from City Council and key management team members, based on community comments and feedback received throughout the year. This team then, through several workshops, identifies and evaluates community needs in the areas of roads/streets, bridges, public buildings, parks and recreation facilities, and affordable housing projects. Each proposed project is reviewed and discussed to ensure funding, timing, and necessity. The budget workshop is held annually to provide the City Council with an opportunity to review each project in detail, and to receive public comments concerning the five-year program.
3. CIP Projects: \$30,000 or More - The capital improvements presented in the budget are the City's major projects, which exceed \$30,000 in cost, have long-term life spans, and are generally non-recurring. These projects include land and right of way acquisition, design, construction or rehabilitation of public buildings or facilities, public infrastructure design and construction, park design and construction, and affordable housing projects.
4. 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.
5. Project Benefit - Projects must identify a benefit and reference a Core Value (QLMP) goal.
6. CIP Review Committee - In determining the relative merit of a proposed project, key management team members evaluate projects for feasibility, community enhancement, infrastructure and historic preservation, and safety.
7. CIP Levels - Projects in the CIP are scheduled in each of five fiscal years based on community needs, as determined by the City Council and availability of funding. Level rankings in each major category (Circulation, Infrastructure/Other, Parks and Recreation, Affordable Housing, and Projects Funded By Community Facilities Districts) are assigned in accordance with the following guidelines:

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- a. LEVEL I: The project is urgent and must be completed as soon as feasible. Failure to address the project may impact the health, safety, or welfare of the community or have a potential significant impact on the financial well-being of the City. The project must be initiated, or financial opportunity losses may result.
 - b. LEVEL II: The project is important and addressing it is necessary. The project impacts safety, law enforcement, health, welfare, economic base, quality of life, and has been identified as a priority in the Quality of Life Master Plan.
 - c. LEVEL III: The project will enhance quality of life and will provide a benefit to the community. Completion of the project will improve the community by providing cultural, recreational, and/or aesthetic value, or is deemed as a necessary improvement to a public facility.
 - d. Future Years Projects: The project will be an improvement to the community but does not necessarily need to be completed within a five-year capital improvement program time frame.
8. CIP Administrative Costs - The administrative costs associated with managing CIP projects are estimated (generally as five to ten percent of estimated construction costs) and included in each project budget.
 9. CIP Operations and Maintenance (O & M) - Future operations and maintenance costs that result from CIP projects are estimated and identified in the CIP project sheets. These incremental future operating costs are incorporated into the five-year forecast.
 10. CIP Phases - The CIP will emphasize project planning, with projects progressing through at least two and up to ten of the following phases:
 - a. *Designate (Assigned)*. Appropriates funds based on projects designated for funding by the Council through adoption of the Capital Improvement Program budget.
 - b. *Study*. Concept design, site selection, feasibility analysis, schematic design, environmental determination, property appraisals, scheduling, grant application, grant approval, specification preparation for equipment purchases.
 - c. *Environmental Review*. Compliance with CEQA, NEPA and other environmental studies, if necessary.
 - d. *Real Property Acquisitions*. Property acquisition for projects, if necessary.
 - e. *Site Preparation*. Demolition, hazardous materials abatements, other pre- construction work.
 - f. *Design*. Final design, plan and specification preparation and construction cost estimation.
 - g. *Construction*. Construction contracts.
 - h. *Construction Management*. Contract project management and inspection, soils and material tests, other support services during construction.

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- i. *Equipment Acquisitions.* Vehicles, heavy machinery, computers, office furnishings, other equipment items acquired and installed independently from construction contracts.
11. 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 Capital Improvement Program budget. 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:
 - a. Eliminate the project;
 - b. Defer the project for consideration to the next Capital Improvement Program budget period;
 - c. Rescope or change the phasing of the project to meet the existing budget;
 - d. Transfer funding from another specified, lower-level ranking project.
 - e. Appropriate additional resources as necessary from fund balance.
12. CIP Budget Carryover - Project accounts, which have been appropriated, will not lapse until completion of the project phase.
13. Program Objectives - Project phases will be listed as objectives in the program narratives of the programs, which manage the projects.
14. General Plan Consistency Review - All projects are evaluated by the City's Planning Commission to ensure consistency with the provisions of the City of Temecula General Plan, while considering the City's long-term vision as developed by the City Council. The proposed capital projects are also reviewed by the Traffic Safety Commission, and the Parks and Recreation Commission.

II. Financial Reporting

A. Annual Reporting

The City will prepare annual financial statements as follows:

1. The City will contract for an annual audit by a qualified independent certified public accountant (or accounting firm). The City will strive for an unqualified auditors' opinion.
2. 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.
3. The City will issue audited financial statements within 180 days after year-end.

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B. Interim Reporting

The City will prepare and issue timely interim reports on the City's fiscal status to the Council and staff. This includes online access to the City's financial management system by City staff; quarterly reports to the Council and Department Directors; and mid-year budget reviews.

C. Budget Amendments

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 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.

D. Extended Annual Reporting

The City will prepare extended annual reports as required by Federal and State requirements including, but not limited to:

1. State Controller Reports
2. Street Report

III. Fund Balance and Reserves

A. Fund Balance Policy

Fund balance represents the accumulation of actual revenues and other financing sources in excess of actual expenditures and other uses at year-end. In general terms, it represents the City's accumulated "savings" from year to year, as any fund balance realized at year-end is added to (or deducted from if expenditures exceeded revenues for that particular year) the previous year's fund balance. Fund balance is often referred to as "reserves."

B. Reserve for Economic Uncertainty

The City will maintain a minimum fund balance of at least 20% of operating expenditures in the General Fund, in order to adequately provide resources in the event of an unexpected draw on City finances. Eligible uses of these reserve funds include:

- Expenditures due to local disasters/acts of nature
- Loss of major revenue source(s) due to financial hardship or economic downturn
- State-imposed take of local revenue/mandated payments
- Significant unanticipated expenditures
- Significant payout of Comprehensive Annual Leave for employees leaving City service

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C. Secondary Reserve for Contingencies

In addition to the Reserve for Economic Uncertainty, the City will strive to maintain an operating reserve within the General Fund in the amount of 5% of General Fund operating expenditures. Use of these reserve funds shall be limited to:

- Covering annual operating expenditures if revenue falls short of projections, creating an annual operating deficit.
- Making one-time investments in Capital infrastructure that will create long-term operational savings to the General Fund, leverage available grant funds, or provide funding for projects that will create an economic benefit to the City.

D. Future Capital Project Designations

The Council may designate specific fund balance levels for future development of capital projects that it has determined to be in the best long-term interests of the City.

E. Other Designations and Reserves

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 reserve requirements; reserves for encumbrances; and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.

F. Fund Balance Components

This policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements, as well as a fund balance expenditures hierarchy. Fund Balance commitments and assignments ensure that there will be adequate financial resources to protect the City against circumstances such as revenue shortfalls and unanticipated expenditures. The Policy also authorizes and directs the Director of Finance to prepare financial reports and categorize fund balance per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

There are five separate components of fund balance which identify the specific purposes for which amounts can be spent: (1) Non-expendable Fund Balance – inherently non-expendable; (2) Restricted Fund Balance – externally enforceable limitations on use; (3) Committed Fund Balance – self-imposed limitations on use; (4) Assigned Fund Balance – limitation resulting from intended use; (5) Unassigned Fund Balance – residual net resources.

1. *Non-expendable Fund Balance* - Amounts that cannot be spent because they are either (a) not in spendable form, such as prepaid items or inventories; or (b) legally required to be maintained intact, such as the principal portion of an endowment.
2. *Restricted Fund Balance* - Amounts for a specific purpose that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, other governments' regulations; or (b) imposed by law through constitutional provisions or enabling legislation.

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3. *Committed Fund Balance* - Amounts authorized for specific purposes by a government's highest level of decision-making authority (City Council). These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period however, the amount can be determined subsequently. The City's committed fund balance includes a reserve for economic uncertainty. Amounts are committed to finance any significant unanticipated revenue shortfalls, negative State budget impacts or impacts from natural disasters or other catastrophic events.
4. *Assigned Fund Balance* - Amounts that are constrained for specific purposes but are neither restricted nor committed. For all governmental funds other than the General Fund, any remaining amounts not classified as non-expendable, restricted, or committed are considered assigned. For the General Fund, this policy delegates the authority to assign amounts to be used for specific purposes to the Director of Finance in consultation with the City Manager for the purpose of reporting these amounts in annual financial statements.
5. *Unassigned Fund Balance* - Residual net resources of the General Fund in excess of what can be classified in one of the other four categories.

G. Hierarchy of Spending Fund Balance

Restricted fund balance should be spent first when an expenditure is incurred for which both restricted and unrestricted fund balance is available. When an expenditure is incurred for purposes where amounts in any of the unrestricted classifications of fund balance could be used, committed amounts are to be spent first, followed by assigned amounts and then unassigned amounts.

H. Unassigned Fund Balance – General Fund

At the end of each fiscal year, the Finance Department will report on the audited year-end financial results. In the event that actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end operating surplus which exceeds the levels required by the reserve policies, noted above, will be deemed as Unassigned Fund Balance, and shall be appropriated for one-time (non-recurring) expenditures in accordance with the following guidelines, subject to City Council approval. Ongoing, or recurring expenditures, are not appropriate uses of available Unassigned Fund Balance.

1. Public Safety equipment or non-recurring programs
2. Asset Management reserves
3. Capital improvement projects
4. Reduction of unfunded liabilities related to CalPERS pension and Other Post-Employment Benefits (OPEB)
5. Reduction, or avoidance, of City deb

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IV. Transactions and Use Tax Funding (Measure S)

A. Measure S Revenue

Pursuant to Ordinance 16-06, on November 8, 2016, the people of Temecula approved a local 1% Transactions and Use Tax, effective on April 1, 2017, to maintain 9-1-1 emergency response times, prevent cuts to local paramedic, police, fire protection, school safety patrols, youth/after-school programs, senior services, disabled services, improve freeway interchanges, reduce traffic and provide for other general services.

B. Appropriation Priorities of Measure S Revenue

In accordance with the approved ballot language related to Measure S, maintaining public safety services is the City's top priority, followed by the appropriate maintenance and replacement of City assets to ensure long-term viability of City operations. As surplus funds are available, the City Council may allocate Measure S funding to capital projects identified in the Capital Improvement Program as well as any associated general services.

1. Public Safety

- a. Within the Police Department, the City will strive to maintain a target staffing ratio of one sworn officer per 1,000 residents (1:1,000), as outlined in the City's General Plan. Upon receiving Population Estimate from the California Department of Finance, in May of each year, the Police staffing ratio shall be evaluated, and if the ratio falls below 1:1,000, the City Council may allocate available Measure S resources to meet the target staffing ratio.
- b. Desired Fire Department staffing levels include four persons per fire engine or fire truck (4-0 staffing). During the Annual Operating Budget process, the Fire staffing ratio shall be evaluated, and if the ratio falls below 4-0 staffing, the City Council may allocate available Measure S resources to meet the target staffing ratio.

2. Asset Management/Investment

In accordance with the Asset Management and Replacement Policy, noted in Section VII., the City strategically manages the life cycle and replacement of its assets; including capital infrastructure, City facilities and parks, fleet vehicles and equipment, and the City's technology and communication systems. Ensuring adequate reserves are set-aside for the future replacement of City-owned assets is critical to the long-term viability of the City's operations.

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The City's Street and road network serves as the capital infrastructure for public transportation in and around the City. A Pavement Management Study is designed to evaluate the current condition of the road network and establish a recommended level of investment necessary to properly maintain the condition of the street and road network. The City Council will strive to allocate an amount up to the recommended level of investment, as stated in the most recent Pavement Management Study, to the Capital Improvement Program – Pavement Rehabilitation Program, or other appropriate capital infrastructure projects designated for street and road network improvements.

The City Council will strive to allocate an amount to be deposited into each asset replacement fund, based on the results of the specific asset management plan conducted periodically for each grouping of asset types (i.e., facilities, parks, vehicles and technology).

3. Capital Improvement Projects

A Capital Improvement Project is defined as a major project, which exceeds \$30,000 in cost, has a long-term life span, and is generally non-recurring. The City Council may allocate available Measure S resources to fund projects identified in the Capital Improvement Program.

4. General Services

Operations and maintenance costs associated with City programs, administration and general services to the public are considered eligible appropriations of Measure S resources, so long as the abovementioned priorities are considered first.

- a. Operations and maintenance costs related to the addition of a new City facility, program or service funded by Measure S, shall have priority over existing City general services.

V. Contingency Planning

In response to adverse financial and economic conditions that could negatively impact the City's fiscal health, a Contingency Plan will provide for a measured response to potential fiscal challenges, as opposed to reactionary decision-making that could hinder the long-term financial solvency of the City.

In accordance with Budget Policies III.B and III.C, the City will strive to maintain reserves in the amount of 25% of General Fund operating expenditures. Eligible uses of these reserve funds are outlined in the aforementioned policy; however this Contingency Plan will address the hierarchy of utilizing reserve funds, in the event the City experiences significant or sudden fiscal constraints.

The type of fiscal challenge will dictate the appropriate budgetary measure to implement in order to ensure solvency. If the fiscal constraint cannot be absorbed by annual budgetary savings, the following hierarchy shall be followed:

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A. One-Time Events

In the event the City is faced with a non-recurring fiscal constraint, such as a State mandated payment or a natural disaster, the use of reserve funds is an appropriate mitigation. The Secondary Reserve for Contingencies shall be utilized first, and fully exhausted prior to utilizing the Economic Uncertainty Reserve.

B. Ongoing Fiscal Constraints

In the event the City experiences the loss of a major revenue source outside of the City's control (i.e. acts of legislation, corporate decisions and/or economic downturn), the City will need to adjust its operations in order to maintain a balanced budget. Circumstances may arise when the City is unable to react quick enough to offset a sudden loss in revenue, and will be required to utilize reserves to supplant the current Operating Budget. The Secondary Reserve for Contingencies shall be utilized first, and fully exhausted prior to utilizing the Economic Uncertainty Reserve. Continued use of reserve funds shall not exceed two budget cycles, to allow adequate time for the implementation of operational changes, while limiting the ongoing dependency on reserves.

Implementation of Contingency Plan actions requires the majority approval of the City Council.

VI. Staffing Policy

A. Regular Staffing

1. The budget will fully appropriate the resources needed for authorized regular staffing.
2. Regular benefitted employees will represent the core work force and the preferred means of staffing ongoing, year-round program activities and services. The City will strive to provide competitive compensation and benefits for its authorized regular workforce. Each regular employee will:
 - a. Fill a position on the Schedule of Authorized Positions in the applicable, approved Annual Operating Budget;
 - b. Receive compensation and benefits consistent with labor agreements or other City Council approved compensation plans.
3. To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
 - a. The Council will authorize all regular positions.
 - b. The Human Resources Department will coordinate and approve the hiring of all regular employees.
 - c. Supplement core staff with a balanced workforce consisting of part-time, contract, and independent contractors.
 - d. All requests for additional regular positions will include evaluations of:
 - The demand for, term and expected results of the proposed activity;

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- Staffing and material costs including salary, benefits, equipment, uniforms, clerical support and facilities;
 - The ability of private industry to provide the services being demanded;
 - Additional revenues or cost savings, which may be realized.
- e. Periodically, and before any request for additional regular positions, existing programs will be re-evaluated to determine if services can be provided with existing regular employees.

B. Project Staffing

1. The hiring of project employees will not be used as a method for expanding the City's regular workforce on a long-term basis.
2. Project employees include all employees other than regular employees, temporary staffing, elected officials and volunteers. Project employees will generally augment regular City staffing as extra-help employees, seasonal employees, and interns.
3. The City Manager and Department Directors will encourage the use of project employees to meet temporary peak workload requirements, fill interim vacancies, and accomplish tasks where less than full-time, year-round staffing is required. Under this guideline, project employees will be hired for up to one year at a time in conjunction with the annual operating budget on an at-will basis. Moreover, project 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 project 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 Human Resources Department.

C. Temporary Staffing

1. Temporary Staffing agencies can be contacted only in the case of a short-term assignment such as sick leave, disability leave, maternity leave, isolated peak in workload, etc.
2. The City will pay the Temporary Staffing Agency a fair base rate for the employee with a negotiated markup while the temporary employee is providing work for the City.

D. Work Hours

1. Regular employee, project employee, and temporary employee work hours will be based on the needs of the City and the position.
2. Employee work hours may be flexed in an effort to minimize overtime.

E. Overtime Management

1. Overtime should be used only when necessary and when other alternatives are not feasible or cost effective.

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2. All overtime must be pre-authorized by a Department Director or delegated in accordance with existing policy.
3. Departmental operating budgets should reflect anticipated annual overtime costs and departments will regularly monitor overtime use and expenditures.
4. When considering the addition of regular, project, or temporary staffing, the use of overtime as an alternative will be considered. The department will take into account:
 - a. The duration that additional staff resources may be needed;
 - b. The cost of overtime versus the cost of additional staff;
 - c. The skills and abilities of current staff;
 - d. Training costs associated with hiring additional staff;
 - e. The impact of overtime on existing staff;
 - f. The impact on quality of services.

F. Independent Contractors

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

1. Short-term, peak workload assignments to be accomplished using personnel contracted through an outside 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 Human Resources Department and subject to the approval of the Human Resources Department.
2. 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.

G. Productivity

The City will continually monitor and review the City's 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:

1. Analyzing systems and procedures to identify and remove unnecessary review requirements.
2. Evaluating the ability of new technologies and related capital investments to improve productivity.
3. Developing the skills and abilities of all City employees.
4. Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.

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5. Evaluating the ability of the private sector to perform the same level of service at a lower cost.
6. Periodic formal reviews of operations on a systematic, ongoing basis.
7. 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:
 - a. Encouraging accountability by delegating responsibility to the lowest possible level;
 - b. Stimulating creativity, innovation and individual initiative;
 - c. Reducing the administrative costs of operation by eliminating unnecessary review procedures;
 - d. Improving the ability of the organization to respond to changing needs, and identify and implement cost-saving programs;
 - e. Assigning responsibility for effective operations and citizen responsiveness to the department.

H. Contracting for Services – Private Sector

1. General Policy Guidelines
 - a. Contracting with the private sector for the delivery of services may provide 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.
 - b. Private sector contracting approaches under this policy include construction projects, professional services, outside employment agencies and ongoing operating and maintenance services.
 - c. In evaluating the costs of a private section contracts compared with in-house performance of the service, indirect, direct, and contract administration costs of the City will be identified and considered.
 - d. 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.
 - e. For programs and activities currently provided by City employees, conversions to contract services will generally be made through attrition reassignment to absorption by the contractor.
2. 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:

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- a. Is a sufficient private sector market available to competitively deliver this service and assure a reasonable range of alternative service providers?
- b. Can the contract be effectively and efficiently administered?
- c. What are the consequences if the contractor fails to perform, and can the contract reasonably be written to compensate the City for any such damages?
- d. Can a private section contractor better respond to expansions, contractions or special requirements of the service?
- e. Can the work scope be sufficiently defined to ensure that competing proposals can be fairly and fully evaluated, as well as contractor's performed after bid award?
- f. Does the use of contract services provide us with an opportunity to redefine service levels?
- g. Will the contract limit our ability to deliver emergency or other high priority services?
- h. Overall, can the City successfully delegate the performance of the service but still retain accountability and responsibility for this delivery?

I. Contracting for Services – Government Service Contracts

1. General Policy Guidelines:
 - a. Contracting with other government entities for the delivery of services such as police and fire provides the City with significant opportunities for cost containment and productivity enhancements. The City utilizes government service contracts to deliver municipal services as a key element in the City's continuing efforts to provide cost-effective programs.
 - b. Police Contract Services – The City contracts with Riverside County Sheriff's Department for police services. Under this contract the City maintains a ratio of one (1) uniformed police officer for every one thousand (1,000) residents. The City will ensure that contracted staffing levels are compatible with the City population and needs. Contracting with the County facilitates an efficient, effective and affordable model of policing for the community. The police contract allows the City to partner with the County to leverage resources to reduce costs for supervision, administration, training, clerical support, vehicles and equipment.
 - c. Fire Contract Services - The City contracts with the Riverside County Fire Department for all fire services. Contracting with the County facilitates an efficient, effective and affordable model of fire protection, disaster preparedness, fire prevention, and emergency operation services for the community. The fire contract allows the City to partner with the County to leverage resources to reduce costs for supervision, administration, training, clerical support, vehicles and equipment.

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J. Contracting for Services – Regional Approach

1. A regional approach to public services leverages economies of scale to improve outcomes and services to the citizens. Therefore, prior to entering into private or government service contracts, the City will require the completion of a systematic assessment to determine whether a regional approach to providing services is necessary.
 - a. Animal Control Services - The City contracts with Animal Friends of the Valleys for animal control services and the County of Riverside (via the Southwest Community Financing Authority) for animal sheltering services. Contracting with multi-agencies for these services demonstrates a regional approach of leveraging resources to provide efficient services (at a reduced cost).

K. Comprehensive Annual Leave Payout

1. Upon an employee's separation from City service, the employee shall have the option to defer their official separation date to that which corresponds to the exhaustion of the employee's Comprehensive Annual Leave (CAL) balance in accordance with established personnel policies and/or labor agreements.
2. When an employee vacates a position using paid time off (e.g. Comprehensive Annual Leave) for an extended period of time, the vacant position will be evaluated by the Department Director, and upon City Manager approval, the Department Director may fill the vacant position in order to continue operations without disruption to City services. In the event the department does not have adequate savings to offset the cost to fill the vacancy, the City Manager is authorized to transfer an amount equal to the funding shortfall from the General Fund Non-Departmental Account No. 001.199.999.5353 – Staffing Continuity Reserve to the affected department.

VII. Asset Management and Replacement Policy

The City has established multiple asset management and replacement funds to accumulate the necessary financial resources to properly maintain City assets over the long-term. The replacement funds are designated for the purpose of purchasing replacement assets at the end of the item's useful life.

Vehicles, equipment, technology, and facilities are tracked on separate replacement schedules, used to determine the annual contribution amounts for each department owning an eligible asset. The annual contribution amounts are equivalent to the estimated cost to replace the asset at the end of its useful life divided by the number of years of useful life.

A. Replacement Funds

1. Fund 310 – Vehicles and Equipment Fund. Eligible assets include vehicles and large equipment items that have a useful life longer than three years and cost in excess of \$10,000.
2. Fund 325 – Technology Replacement Fund. Eligible assets include those technology-related assets that have a useful life longer than three years and cost in excess of \$5,000.

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3. Fund 335 – Support Services Replacement Fund. Eligible assets include copier machines utilized by all City departments and maintained by the Information Technology/Support Services department.
4. Fund 350 – Facilities Replacement Fund. Eligible assets include City buildings, systems, and infrastructure necessary to properly operate and maintain all City facilities.
5. Fund 191 – Streetlight Replacement Fund. This fund was established when the City acquired the streetlight network from Southern California Edison, in order to have available resources to repair and replace the light standards, bulbs and other infrastructure of the streetlight network. Resources for this fund are accumulated through Service Level B rate and charges assessed on the properties utilizing the Citywide residential streetlight network.

The funds are discretionary in nature and may be reappropriated by the City Council to provide financial reserves to respond to natural disasters and other emergencies; provide a source for internal loans and liquidity; or serve as collateral for City debt issues.

VIII. Capital Financing and Debt Management

A. Capital Financing

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 project's useful life will exceed the term of the financing;
 - b. When project revenues or specific resources will be sufficient to service the long-term debt.
2. The City will integrate debt issuances with the objectives of the Capital Improvement Program and will incorporate such integration in the formulation of the City's Five-Year Financial Forecast.
3. 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)
4. Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes or developer contributions 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.
5. Transportation-related impact fees are a major funding source in financing transportation system improvements. However, revenues from these fees are subject to significant fluctuation based on the rate of new development. Accordingly, the following guidelines will be followed in designing and building projects funded with transportation impact fees:

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- a. The availability of transportation impact fees in funding a specific project will be analyzed on a case-by-case basis as plans and specifications, or contract awards are submitted for City Manager or Council approval.
 - b. If adequate funds are not available at that time, the Council will make one of two determinations:
 - Defer the project until funds are available;
 - Based on the high priority of the project, advance funds from the General Fund, which will be reimbursed as soon as funds become available. Repayment of General Fund advances will be the first use of transportation impact fee funds when they become available.
6. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:
- a. 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.
 - b. 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.

B. Debt Management

1. The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.
2. 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.

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3. 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.
4. The City will seek an investment grade rating (Baa/BBB or greater) on any direct debt and will seek credit enhancement such as letters of credit or insurance when necessary for marketing purposes, availability, and cost-effectiveness.
5. The City will monitor all forms of debt annually coincident with the City's Five-Year Financial Forecast preparation and review process and report concerns and remedies, if needed, to the Council.
6. 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.
7. 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).
8. 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.
9. 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 different from the original intended purpose.
10. 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.
11. 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).

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C. Debt Capacity

1. General Purpose Debt Capacity. The City will carefully monitor its levels of general-purpose debt. Because the general-purpose debt capacity is limited, it is important that the City only use general-purpose debt financing for high-priority projects where it cannot reasonably use other financing methods for two key reasons:
 - a. Funds borrowed for a project today are not available to fund other projects tomorrow;
 - b. Funds committed for debt repayment today are not available to fund operations in the future. In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Fund revenues; and in no case should they exceed 15%. Further, direct debt will not exceed 2% of assessed valuation; and no more than 60% of capital improvement outlays will be funded from long-term financings.

D. Independent Disclosure Counsel

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.

E. Land-Based Financings

1. 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.
2. 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 will 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:

- a. Public safety facilities;
- b. 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;
- c. Storm drainage, creek protection and flood protection improvements;
- d. Parks, trails, community centers and other recreational facilities;

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- e. Open space;
 - f. Cultural and social service facilities;
 - g. Other governmental facilities and improvements such as offices, information technology systems and telecommunication systems.
3. Active Role. Even though land-based financings may be a limited obligation of the City, staff 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, special tax consultant and underwriter, as appropriate. 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.
 4. Credit Quality. When a developer requests a district, the City will carefully evaluate the applicant's financial plan and ability to carry-out the project, including the payment of assessments and special taxes 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.
 5. Reserve Fund. A reserve fund should be established in the lesser amount of: the maximum annual debt services; 125% of the annual average debt service; or 10% of the bond proceeds.
 6. Value-to-Debt Ratios. The minimum value-to-debt ratio should generally be 4:1. This means the value of the property in the district, with the public improvements, should be at least four times the amount of the assessment or special tax debt. In special circumstances, after conferring and receiving the concurrence of the City's financial advisor and bond counsel that a lower value-to-debt ratio is financially prudent under the circumstances; the City may consider allowing a value-to-debt ratio of 3:1. The Council should make special findings in this case.
 7. Appraisal Methodology. Determination of value of property in the district will be based upon the full case value as shown on the ad valorem assessment roll or upon an appraisal by an independent Member Appraisal Institute (MAI). The definitions, standards and assumptions to be used for appraisals will be determined by the City on a case-by-case basis, with input from City consultants and district applicants, and by reference to relevant materials and information promulgated by the State of California, including the Appraisal Standards for Land Secured Financings prepared by the California Debt and Investment Advisory Commission.
 8. Capitalized Interest During Construction. Decisions to capitalize interest will be made on a 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.

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9. 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%, with priority going toward special assessments and/or special taxes used to offset any negative fiscal impact of providing municipal services, as determined by a Fiscal Impact Analysis.
10. Benefit Apportionment. Assessments and special taxes 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. No annual escalation factor will be permitted for special assessments or special taxes that support debt service on bonds utilized to finance public infrastructure. Annual escalation factors on special assessments and/or special taxes used to fund municipal services shall be as identified in the Fiscal Impact Analysis.
11. 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.
12. Foreclosure Covenants. In managing administrative costs, the City will establish minimum delinquency amounts per owner, and for the district as a whole, on a case-by-case basis before initiating foreclosure proceedings.
13. 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.
14. 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.

F. Conduit Financings

1. The City will consider requests for conduit financing on a case-by-case basis using the following criteria:
 - a. The City's bond counsel will review the terms of the financing, and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant;
 - b. There is a clearly articulated public purpose in providing the conduit financing;
 - c. The applicant is capable of achieving this public purpose.
2. The review of requests for conduit financing will generally be a two-step process:

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- a. First, obtaining Council’s interest in the request, and establishing the ground rules for evaluating it;
- b. Second, return to Council with the results of this evaluation and recommend approval of appropriate financing documents, if warranted.

This two-step approach ensures that the issues are clear for both the City and applicant, and that key policy questions are answered.

3. The work scope necessary to address these issues will vary from request to request and will have to be determined on a case-by-case basis. Additionally, the City should generally be fully reimbursed for costs incurred in evaluating the request; however, this should also be determined on a case-by-case basis.

G. Refinancings

1. 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:
 - a. There is a net economic benefit;
 - b. It is needed to modernize covenants that are adversely affecting the City’s financial position or operations;
 - c. 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.
2. Standards for Economic Savings. In general, refinancing for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.
 - a. 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.
 - b. 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.

H. Types of Debt That May be Issued

1. To implement the financing (or refinancing) objectives, the City will consider the issuance of generally accepted types of debt, including:
 - a. 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;
 - b. Special Assessment/Special Tax Bonds – limited liability obligations secured by special assessments or special taxes as described above under “Land-Based Financings”;

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- c. 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.
 - d. 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.
 - e. 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 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.
 - f. 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.
2. 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.

I. Policy Goals Related to Planning Goals and Objectives

1. 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.
2. 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.
3. 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.

J. Creation of Services Community Facilities Districts

1. Introduction
 - a. It is the City’s goal to support new development projects that address public need and provide a public benefit. In consideration of these projects, the City desires to ensure that the provision of both general services and public safety services are addressed.

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- b. The City shall require developments that propose an increase in a higher density residential use than what is currently allowed by the General Plan or Zoning Code to form, or annex into, a Community Facilities District (CFD) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, for the purposes of providing municipal services and public safety services.
 - c. The City shall make the final determination as to which public financing mechanism, if any, shall be used to assist in the funding of a service. The City may confer with the applicant to learn of any unique circumstances before making its final determination.
2. Eligible Expenses
- a. All City and any consultant costs incurred in evaluating applications requesting the establishment of CFDs shall be paid by the applicant by advance deposit increments, or as otherwise agreed upon in writing by the City. The City shall not incur any non-reimbursable expense for processing such applications. Expenses not chargeable to the District shall be borne by the applicant.
 - b. In general, the services to be financed by a public services CFD are those identified in the Mello-Roos Community Facilities Act which are provided by the City including:
 - i. Police protection services, including but not limited to, criminal justice services.
 - ii. Fire protection and suppression services, and ambulance and paramedic services.
 - iii. Provision of municipal services including, but not limited to, parks and park maintenance, street maintenance, facility maintenance, parkway maintenance, recreation funding, library services, open space, flood and storm protection services, and operation of museums and cultural facilities.
 - iv. Other services as may be permitted pursuant to the Mello-Roos Community Facilities Act as it may be amended from time to time.
3. Selection of Consultants
- a. The City shall select and solely manage, coordinate, and direct the work of the special tax consultant, assessment engineer, financial advisor, special district administrator, and other professionals and consultants it deems appropriate in relation to the formation of, or annexation into, a Services CFD.
4. Fiscal Impact Analysis (FIA)
- a. The City shall enter into an agreement with a third-party consultant to conduct a fiscal impact analysis that analyzes the cost of the provision of services to the proposed development.
 - i. The applicant shall be responsible for incurring all costs of the FIA and pay a deposit in advance, or as otherwise agreed upon, in writing, by the City.

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- ii. The FIA shall utilize the final project description, as provided by the applicant, for analysis. The project description must also match that description used for the necessary California Environmental Quality Act (CEQA) analysis.
 - iii. The FIA shall utilize the most current adopted budget data, to be provided by the City, to develop the projected cost of services relative to the proposed development. The most current available data regarding CPI and other inflators, contract increases, expenditure and revenue trends, and future known legislation affecting the City's budget shall be used.
 - iv. The FIA shall maintain a 1:1,000 police officer ratio, as the population of the City continues to increase.
 - v. If the FIA is completed more than one year prior to the completion of the entitlement process, the FIA shall be updated to reflect the most recent budget data.
 - vi. If a significant change in in the City's fiscal environment occurs between the finalization of the FIA and the completion of the entitlement process, the City may require an updated FIA to be completed.
5. Rate and Method of Apportionment
- a. The findings of the FIA will be utilized in the determination of the rate and method of apportionment (RMA) for the CFD, as calculated by a third-party special tax consultant, after the proposed development has received its entitlements.
 - b. The RMA should provide for an annual increase in the maximum special tax.
 - c. For residential components of development projects, the projected ad valorem tax and other direct and overlapping debt for the proposed CFD shall not exceed 2.0% of the anticipated initial sales price to the ultimate home buyer, per City policy. Any deviations from the foregoing will not be permitted unless specifically approved by the City Council.
 - d. The term of the Services CFD shall be in perpetuity, unless otherwise agreed to by the City Council.
 - e. The City will consider the apportionment of assessments to those properties that are found by the assessment engineer to be benefited by the municipal services provided. The assessment engineer will review the services provided to each parcel in order to comply with the requirements of Proposition 218 and applicable State statutes.
 - f. The rate and method of special taxes will be structured in such a manner as to result in a fair and reasonable taxing structure. The City and its special tax consultant will consider input from the proponent of the development project, but the City will make the final determination.

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6. Deposit/Reimbursement Agreement
 - a. As stipulated earlier in this policy, all City and any consultant costs incurred in evaluating applications requesting the establishment of CFDs shall be paid by the applicant by advance deposit increments, or as otherwise agreed upon in writing by the City.
 - b. The City and the applicant shall enter into a Deposit/Reimbursement Agreement that stipulates the terms of payment for the costs in conducting proceedings for the formation of the Services Community Facility District.
 - c. The Director of Finance may draw upon the deposits to pay costs including, but not limited to fees and expenses of any consultants employed in connection with the formation or annexation of the CFD; the costs of publication of notices; appraisal or other studies determined necessary; and reasonable charges for City staff time.
7. Conditions for Project Approval for New Projects
 - a. Effective upon adoption of this policy, the City shall require all developments that propose an increase in a higher density residential use than what is currently allowed by the General Plan or Zoning Code to form or annex into a CFD pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, for the purposes of providing general municipal services and public safety services, for the purpose of offsetting the cost of providing said services to new residents. Determination of an eligible CFD will be made at the discretion of the City. If an eligible CFD does not exist, a new services CFD formation will be required. It is the City's goal to provide a consistent level of service to all City residents.
 - b. The City may choose to enter into a Development Agreement with the applicant, requiring the development to form, or annex into, the Services CFD.
 - c. If no Development Agreement is entered into between the City and the applicant, a condition of approval will be placed upon the project during the entitlement phase, stipulating that prior to the approval of any map, it will be required that the development form, or annex into, a Services CFD.
 - d. The City, in conjunction with its financial advisors, shall determine whether the aggregate cost of public services, allowable under statute, shall equal an amount that renders the formation of a District economically both cost-effective and efficient.
 - e. The City will work, on a case by case basis, to determine the appropriate tax rate to be levied for proposed projects, in conjunction with a Services CFD applying for the development of affordable housing, as defined by the California Health and Safety Code.

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IX. Interfund Transfers and Loans Policy

A. Establishment of Various Funds

The City has established various 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.

B. Transfer Between Funds

Any transfers between funds for operating purposes are set forth in the 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. 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.

C. Interfund Loans

Interfund loans may be appropriate whenever the loan is expected to be repaid within the immediate future. The most common use of interfund loans is for grant programs, where costs are incurred before drawdowns are initiated and received. Receipt of funds is typically received shortly after the request for funds has been made.

X. Appropriations Limitation

A. Adopting a Resolution

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.

B. Supporting Documentation Available for Review

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 fifteen 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.

C. Calculating Appropriations

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.

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D. Review of User Fees and Charges

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 Fund. An annual inflator is automatically calculated each year based on changes in the Consumer Price Index.

E. Support of Legislation or Initiatives

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.

F. Voter Approval to Amend Appropriation Limit

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

XI. Pension Rate Stabilization Policy

A. Establishment of an Internal Revenue Code (IRC) Section 115 Irrevocable Trust

The City contracts with the California Public Employees Retirement System (CalPERS) to provide pension benefits to its employees. The pension is funded with a combination of employer and employee contributions. To mitigate the volatility in the employer contribution rates, the City has established a Section 115 Trust to prefund its pension obligations. Assets from the Trust are restricted for the payment of pension obligations.

B. Funding of an Internal Revenue Code (IRC) Section 115 Irrevocable Trust

The primary benefit of a Section 115 Trust is the flexibility of investment options available to the Trust that cities are prohibited from utilizing. The broader investment options have the ability to generate higher yields and investment earnings, thereby increasing the assets held in trust.

To establish the Section 115 Trust, a one-time contribution of \$8 million was deposited as seed funding during Fiscal Year 2017-18.

Effective Fiscal Year 2018-19 and every year thereafter until amended by Council;

1. At a minimum, an amount equivalent to 26% of Total Payroll may be deposited into the Section 115 Trust in July for the ensuing fiscal year, so long as the City has adequate cash flow for operations.
2. Thirty percent (30%) of the Operating Budget Surplus within the General Fund may be deposited into the Section 115 Trust, up to a maximum contribution of \$2 million per year. The Operating Budget Surplus is defined as the excess amount over the budgeted Revenue over Expenditures calculation.

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3. Additional Trust contributions may be programmed through the Annual Operating Budget process each year, as approved by Council.

Annual pension liability payments to CalPERS shall be made from the proceeds of the Section 115 Trust, so long as adequate proceeds are available in the Section 115 Trust.

XII. Signature Delegation Policy

A. Delegation of City Manager Signature Authority

In accordance with the Budget Resolution Section 1.E-F., the City Manager may authorize expenditures of funds in the amounts up to one-hundred thousand dollars (\$100,000). Any expenditures in excess of \$100,000 requires City Council action.

With regard to contracts and agreements, the City Manager hereby delegates his signature authority, up to \$100,000 to the Assistant City Manager, and up to \$60,000 as follows:

1. Temecula Community Service District contracts and agreements may be approved by the Director of Community Services for the following contract types:
 - a. Entertainment, Performance and Event Agreements
2. Public Works contracts and agreements may be approved by the Deputy City Manager or the Director of Public Works for the following contract types:
 - a. Maintenance Agreements
 - b. Minor Construction Agreements
3. "Approved As To Form" approval on all agreements, with the exception of those noted below, may be approved by the Assistant Director of Finance, up to \$10,000. All contracts and agreements in excess of \$10,000, must be Approved As To Form by the City Attorney, or his/her designee.
 - a. Successor Agency Agreements
 - b. Housing Authority Agreements
 - c. Preservation of Cultural Resource Agreements
 - d. Leases
 - e. Licenses Agreements
 - f. Settlement Agreements

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B. Delegation of City Manager Settlement Authority

In accordance with the Budget Resolution Section 1.G., the City Manager, in consultation with the City Attorney, is authorized to settle personal injury and property damage lawsuits and enter into settlement agreements on behalf of the City, Temecula Community Services District, and the Successor Agency to the Temecula Redevelopment Agency where the amount of the settlement does not exceed one-hundred thousand dollars (\$100,000).

1. For all Personal Injury, Property, and Employment Claim settlements, the City Manager hereby delegates his signature authority to the Director of Human Resources/Risk Management to negotiate settlements up to \$10,000.

XIII. Emergency Appropriation Policy

In the event of an emergency resulting from acts of nature or other unforeseen activity, the City Manager is authorized to appropriate budgetary funds for the emergency purchase of goods and services to address such emergency.

In the event the emergency requires a significant Public Works response, an emergency exemption to the Public Works bidding requirements must be approved by the City Council via an Emergency Exemption Resolution.

XIV. Debt/Liability Paydown Strategy Policy

At their meeting December 13, 2022, the Council adopted the City’s Debt/Liability Paydown Strategy, which provides for a 7-year paydown schedule for the City’s outstanding facility debt, the unfunded pension liability and the unfunded Other Post-Employment Benefits (OPEB) liability. As the economic conditions change, it will be necessary to reevaluate the Paydown Strategy to ensure adequate funding exists to maintain the paydown schedule and reach the goal of a 7-year paydown.

The Paydown Strategy consists of a 15-year Financial Plan and includes the use of Available General Fund Balance and available resources in the IRC Section 115 Irrevocable Pension Trust to pay off the City’s outstanding debt/liabilities in accordance with the table below (updated in January 2024):

As of January 2024		Funding Sources		Payoff Schedule				Annual	Updated
Year #	Fiscal Year	Pension Trust	Available Fund Balance	OPEB Liability	Pension Liability	Civic Center Loan	MRC Loan	Budgetary Savings	Change From Original
1	2022-23	5,000,000	19,913,606		7,250,000	12,624,607	5,038,999	(1,620,001)	(364,988)
2	2023-24	7,000,000	10,792,003	3,254,000	14,538,003			(3,253,835)	1,893,000
3	2024-25	5,000,000	2,913,492		7,913,492			(5,522,203)	(321,458)
4	2025-26	2,000,000	6,267,833		8,267,833			(5,598,373)	1,448,821
5	2026-27		8,455,217		8,455,217			(5,680,108)	6,277,059
6	2027-28		9,019,970		9,019,970			(5,763,328)	(1,184,698)
7	2028-29		6,304,545		6,304,545			(5,851,032)	(1,125,490)
8	2029-30							(5,938,215)	
9	2030-31							(5,566,423)	
10	2031-32							(4,356,798)	
		19,000,000	63,666,666	3,254,000	61,749,060	12,624,607	5,038,999	(49,150,315)	6,622,246
Change from Original		2,000,000	1,885,165	(2,107,000)	9,095,257	(327,393)	(38,618)	8,999,878	
Total Interest Savings				n/a	30,763,360	2,187,894	1,036,267		

BUDGET AND FISCAL POLICIES

The original OPEB and Pension liability amounts were determined as of June 30, 2020 valuation reports and are subject to change as CalPERS investment returns fluctuate each year. Annual Budgetary Savings generated by the payoff of a specific debt/liability is redirected back into Available Fund Balance and applied to the payoff of future unfunded liabilities until all obligations are paid off.

The CalPERS Pension Unfunded Liability will be considered “paid off” when the City Pension Plan’s Funded Status, as defined by CalPERS, is equal to or greater than 100%. To achieve this Funded Status within the 7-year target, annual Additional Discretionary Payments (ADPs) will be made directly to CalPERS, as noted in the above schedule.

Any deviations from the Paydown Strategy’s 15-Year Financial Plan that trigger less than \$4 million in Available Fund Balance in any year of the forecast is cause for reevaluating the paydown timeline. Economic impacts that could trigger the reevaluation include:

- (1) Economic conditions, including recession or potential recession,
- (2) Decrease in General Fund revenue,
- (3) Increase in General Fund expenditures,
- (4) Declining interest earnings in CalPERS’ Public Employees’ Retirement Fund (PERF) portfolio,
- (5) Declining investment earnings in the City’s IRC Section 115 Irrevocable Pension Trust

Each year, as part of the Annual Operating Budget process and the Mid-Year Budget process, the 15-Year Financial Plan shall be updated and reevaluated to ensure adequate Available General Fund Balance and Pension Trust balances exist to make the Pension Liability payments, or ADPs, as outlined in the table above. If the funding sources are not adequate to maintain Available Fund Balance in excess of \$4 million each year of the forecast, an alternative paydown schedule shall be presented for City Council consideration.

An Operating Budget Surplus is defined as the excess amount over the budgeted Revenue over Expenditures calculation. In the event of any remaining Operating Budget Surplus after contributions are made to the City’s IRC Section 115 Irrevocable Pension Trust in accordance with Budget Policy XI, additional ADPs may be made from the remaining surplus, up to \$2 million per fiscal year. Additional ADPs may be programmed through the Annual Operating Budget process each year, as approved by Council.