



TOWN OF HILLSBOROUGH

PERSONNEL POLICY

POLICY 409

LAST REVISED 1/9/06

SUBJECT: BUDGET AND FISCAL POLICIES

FINANCIAL PLAN PURPOSE AND ORGANIZATION

A. Financial Plan Objectives. Through its budget or financial plan, the Town will link resources with results by:

1. Identifying community needs for essential services.
2. Organizing the programs required to provide these essential services.
3. Establishing program policies and goals that define the nature and level of program services required.
4. Identifying activities performed in delivering program services.
5. Proposing objectives for improving the delivery of program services.
6. Identifying and appropriating the resources required to perform program activities and accomplish program objectives.

B. Three-Year Extended Financial Outlook. Following the Town's favorable experience over the utilization of multiple-year budget, the Town will continue using a three-year extended financial outlook, emphasizing long-range planning and effective program management. Appropriations continue to be made annually under this process; the preliminary budget for the next two years serves as the foundation for preparing the subsequent budgets. The following benefits were identified with the multiple-year budget:

1. Reinforcing the importance of long-range planning in managing the Town's fiscal affairs.
2. Concentrating on developing and budgeting for the accomplishment of significant objectives.
3. Establishing realistic timeframes for achieving objectives.
4. Creating a pro-active budget that provides for stable operations and assures the City's long-term fiscal health.
5. Promoting more orderly spending patterns.
6. Reducing the amount of time and resources allocated to preparing annual budgets.

C. Measurable Objectives. The financial plan will establish measurable program objectives and allow reasonable time to accomplish those objectives.

- D. Operating Carryover.** Operating program appropriations not spent during the prior year for major projects, may be carried over for specific purposes into the following fiscal year with the approval of the City Manager.
- E. Goal Status Reports.** The status of major program objectives will be formally reported to the Council on an ongoing, periodic basis.
- F. Mid-Year Budget Reviews.** The Council will formally review the Town's fiscal condition, and amend appropriations, if necessary, at midyear.
- G. Balanced Budget.** The Town will maintain a balanced budget in the General Fund which means the following:
1. Operating revenues must fully cover operating expenditures, including debt service.
 2. It is allowable for total expenditures to exceed revenues in a given year to fund capital improvement plan projects, or other "one-time" nonrecurring expenditures, subject to the Fund Balance minimum level of reserves as fully discussed in the FUND BALANCE DESIGNATIONS AND RESERVES section of this document.

Budgeting for all other governmental funds will be project specific and will be subject to the available individual fund balances.

Budgeting for the water and sewer funds will be subject to the policies set forth under the "Enterprise Fund Fees and Rates" paragraph of this policy document.

FINANCIAL REPORTING AND BUDGET ADMINISTRATION

- A. Annual Reporting.** The Town will prepare annual financial statements as follows:
1. The Town will contract for an annual audit by a qualified independent certified public accountant. The Town will strive for an unqualified auditors' opinion.
 2. The Town will use generally accepted accounting principles in preparing its annual financial statements, and will strive to meet the requirements of the Governmental Finance Officers Association (GFOA)'s Award for Excellence in Financial Reporting program.
 3. The Town will issue audited financial statements within 180 days after year-end.
- B. Interim Reporting.** The Town will prepare and issue timely interim reports on the Town's fiscal status to the Council, the Financial Advisory Committee and staff. This includes: monthly reports to program managers; quarterly reports to the Council, the Financial Advisory Committee and Department Heads; midyear budget reviews; and interim annual reports.
- C. Budget Administration.** The Council may amend or supplement the budget at any time after its adoption by a majority vote of the members. The City Manager

may 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.

GENERAL REVENUE MANAGEMENT

- A. Diversified and Stable Base.** The Town will seek to maintain a diversified to the extent possible given the nature of the community, and stable revenue base.
- B. Long-Range Focus.** To emphasize and facilitate long-range financial planning, the Town will maintain current projections of revenues for the succeeding five years.
- C. Current Revenues for Current Uses.** The Town will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- D. Interfund Transfers and Loans.** Transfers between funds for operating purposes can only be made in accordance with an adopted budget.

From time-to-time, interfund borrowing, which is specifically distinguished from interfund transfer and is intended to be repaid in the near-term, may be appropriate; however, this is subject to the following criteria to ensure that the fiduciary purpose of the fund is met:

1. The Finance Director is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 45 days.
2. Any other interfund borrowings for cash flow or other purposes require case-by-case approval by the Council.

USER FEE COST RECOVERY GOALS

- A. Ongoing Review.** Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service.
- B. User Fee Cost Recovery Levels.** In setting user fees and cost recovery levels, the following factors will be considered:
 1. **Special Permits.** Cost of Town staff time spent in addressing special permit applications shall be recovered to the maximum extent feasible.
 2. **Service Recipient Versus Service Driver.** After considering community-wide versus special benefit of the service, the concept of service recipient versus service driver should also be considered. Example: While an

applicant may not be the ultimate beneficiary of the Town's development review efforts, the applicant is the driver of development review costs, and as such, cost recovery from the applicant is appropriate.

3. ***Feasibility of Collection and Recovery.*** The feasibility of assessing and collecting charges should also be considered in developing user fees, as there might be instances where it is impractical or too costly to establish a system to identify and charge the user.

C. General Concepts Regarding The Use Of Service Charges.

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

1. Revenues should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance and insurance.
3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
5. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

D. Development Review Programs

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

1. Services provided under this category include but are not limited to:
 - a) Planning (rezonings, general plan amendments, variances, design review).
 - b) Building and safety (building permits, structural plan checks, inspections).
 - c) Engineering (tentative tract and parcel maps, public improvement plan checks, inspections, subdivision requirements, encroachments).
 - d) Fire plan check.
2. Cost recovery for these services should be 100% except in instances where a process is clearly intended to serve the broader community as well as the applicant.

ENTERPRISE FUND FEES AND RATES

- A. Water and Sewer.** The Town will set fees and rates at levels which fully cover the total direct and indirect costs – including operations, capital outlay and debt service – of the water and sewer operations.

- B. Ongoing Rate Review.** The Town will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate and equitable.
- C. Franchise and In-Lieu Fees.** The Town will treat the water and sewer funds in the same manner as if they were privately owned and operated. In addition to setting rates at levels necessary to fully cover the cost of providing water and sewer service, the Town will assess reasonable franchise fees. Franchise fees are based on the statewide standard for public utilities like electricity and gas: 2% of gross revenues from operations.

INVESTMENTS

- A. Responsibility.** Investments and cash management is the responsibility of the City Treasurer or designee.
- B. Investment Objective.** The Town's primary investment objective is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default.

Accordingly, the following factors will be considered in priority order in determining individual investment placements:

1. Safety
2. Liquidity
3. Yield

- C. Selecting Maturing Dates.** The Town will strive to keep all idle cash balances fully invested through daily projections of cash flow requirements. To avoid forced liquidations and losses of investment earnings, cash flow and future requirements will be the primary consideration when selecting maturities.
- D. Diversification.** As the market and the Town's investment portfolio change, care will be taken to maintain a healthy balance of investment types and maturities.
- E. Authorized Investments.** The Town will invest only in those instruments as authorized in the Town's adopted investment policy. The Town will not invest in stock, will not speculate and will not deal in futures or options.
- F. Authorized Institutions.** Current financial statements will be maintained for each institution in which cash is invested and the amount of investments in each institution will be as authorized in the Town's adopted policy.
- G. Consolidated Portfolio.** In order to maximize yields from its overall portfolio, the Town will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.
- H. Safekeeping.** Ownership of the Town's investment securities will be protected

through third-party custodial safekeeping.

- I. Investment Management Plan.** The City Treasurer will develop and maintain an Investment Management Plan that addresses the Town's administration of its portfolio, including investment strategies, practices and procedures.
- J. Reporting.** The City Treasurer will develop and maintain an investment reporting system pursuant to Government Code Section 53607.

APPROPRIATIONS LIMITATION

- A.** The Council will annually adopt a resolution establishing the Town'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 related voter approved amendments or state legislation.
- B.** The supporting documentation used in calculating the Town's appropriations limit and projected appropriations subject to the limit will be available for public and Council review at least 10 days before Council consideration of a resolution to adopt an appropriations limit. The Council will generally consider this resolution connection with final approval of the budget.
- C.** The Town will seek voter approval to amend its appropriation limit at such time that tax proceeds are in excess of allowable limits.

FUND BALANCE DESIGNATIONS AND RESERVES

- A. Minimum Fund and Working Capital Balances.** The Town will strive to maintain fund or working capital balances of at least 30% of operating expenditures in the General Fund (Refer to Attachment "A" to this policy document for discussion of the General Fund Reserve Policy.) and a combined 20% in the water and sewer enterprise funds. This is considered the minimum level necessary to maintain the Town's credit worthiness and to adequately provide for:
 - 1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
 - 2. Contingencies for unseen operating or capital needs.
 - 3. Cash flow requirements.
- B. Equipment Replacement.** The Town will establish and maintain an Equipment Replacement Fund to provide for the timely replacement of vehicles and capital equipment with an individual replacement cost of \$15,000 or more. The Town will maintain a minimum fund balance in the Equipment Replacement Fund of at least 20% of the original purchase cost of the items accounted for in this fund.

The annual contribution to this fund will generally be based on the annual use

allowance, which is determined based on the estimated life of the vehicle or equipment and its original purchase cost. Interest earnings and sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the Equipment Replacement Fund.

C. 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 Town.

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

E. Use of One-Time Revenues and Fund Balance in Excess of Minimum Levels of Reserves. The Town will strive to strategically use one-time revenues such as sale of surplus property, and fund balance in excess of the minimum levels of reserves, for one-time expenditures and non-recurring costs only and not to be used to fund ongoing service improvements.

CAPITAL IMPROVEMENT MANAGEMENT

A. CIP Projects -\$10,000 or More. Construction projects which cost \$10,000 or more will be included in the Capital Improvement Plan (CIP) as well as minor capital outlays for equipments and furnishings.

B. CIP Purpose. The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a five-year plan organized into the same functional groupings used for the operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the City's existing fixed assets.

C. CIP Appropriation. The Town's annual CIP appropriation for study, design, acquisition and/or construction is based on the projects designated by the Council through adoption of the Financial Plan. Adoption of the Financial Plan CIP appropriation does not automatically authorize funding for specific project phases. This authorization generally occurs only after the preceding project phase has been completed and approved by the Council and costs for the succeeding phases have been fully developed.

Accordingly, project appropriations are generally made when contracts are awarded. If project costs at the time of bid award are less than the budgeted amount, the balance will be returned to the fund balance or allocated to another

project. If project costs are greater than the budgeted amounts, appropriation of additional resources must be identified and approved by the Council.

- D. CIP Budget Carryover.** Appropriations for CIP projects lapse three years after budget adoption. Projects which lapse from lack of project account appropriations may be resubmitted for inclusion in a subsequent CIP. Project accounts which have been appropriated will not lapse until completion of the project phase.

CAPITAL FINANCING AND DEBT MANAGEMENT

A. Capital Financing

1. The Town 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. Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures.
3. The Town will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:

Factors favoring pay-as-you-go financing

- a) Current revenues and adequate fund balances are available or project phasing can be accomplished.
- b) Existing debt levels adversely affect the Town's credit rating.
- c) Market conditions are unstable or present difficulties in marketing.

Factors favoring long-term financing

- a) Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
- b) The project securing the financing is of the type which will support an investment grade credit rating.
- c) A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
- d) The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
- e) The life of the project or asset to be financed is 5 years or longer.

B. Debt Management

1. The Town will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.
2. A 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.
3. The Town 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 Town will seek an investment-grade rating (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.
5. The Town will monitor all forms of debt annually coincident with the Town's financial plan preparation and review process and report concerns and remedies, if needed, to the Council.
6. The Town will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
7. The Town will maintain good, ongoing communications with bond rating agencies about its financial condition. The Town will follow a policy of full disclosure on every financial report and bond prospectus.
8. When interest rate products are utilized, they will be issued in accordance to Section 5922(a) of the Government Code and the Town's Interest Rate Risk Mitigation Policy (Swap Policy) adopted in January 2006.

C. Debt Capacity

1. **General Purpose Debt Capacity.** The Town will carefully monitor its level of general-purpose debt. Because the Town's general purpose debt capacity is limited, it is important that only general purpose debt financing is used for high-priority projects where other financing methods cannot reasonably be used.

In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of the General Fund revenues; and in no case should they exceed 15%.

2. **Enterprise Fund Debt Capacity.** The Town will set enterprise fund rates at levels needed to fully cover debt service requirements as required by the debt covenants, as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the Town's rate review and setting process.

HUMAN RESOURCE MANAGEMENT

A. Regular Staffing

1. The budget will fully appropriate the resources needed for authorized regular staffing and will limit programs to the regular staffing authorized.
2. Regular employees will be the core work force and the preferred means of staffing ongoing, year-round program activities. The Town will strive to provide competitive compensation and benefit schedules for its authorized regular work force.
3. To manage the growth of the regular work force and overall staffing costs, the Town will follow these procedures:
 - a. The Council will authorize all regular positions, preferably in conjunction with the budget process.
 - b. The City Manager's office will coordinate and approve the hiring of all regular and temporary employees.
 - c. All requests for additional regular positions will include evaluations of:
 - i. The necessity, term and expected results of the proposed activity.
 - ii. Staffing and materials costs including salary, benefits, equipment, uniforms, clerical support and facilities.
 - iii. Additional revenues or cost savings, which may be realized.

B. Temporary Staffing

1. The hiring of temporary employees will not be used as an incremental method for expanding the Town's regular work force.
2. Temporary employees include all employees other than regular employees, elected officials and volunteers. Temporary employees will generally augment regular Town staffing as extra-help employees, seasonal employees, contract employees, interns and work-study assistants.
3. The City Manager and department heads will encourage the use of temporary rather than regular employees to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less than full-time, year-round staffing is required. Under this guideline, temporary employee hours will generally not exceed 1,000 hours annually. Limited circumstances where the use of temporary employees on an ongoing basis in excess of this target due to unique programming or staffing requirements, must be approved by the City Manager.
4. Contract employees are defined as temporary employees with written contracts approved by the City Manager. Contract employees will generally be used for medium-term (generally between six months and two years) projects, programs or activities requiring specialized or augmented levels of staffing for a specific period.
5. The services of contract employees will be discontinued upon completion of the assigned project, program or activity.

C. Independent Contractors

Independent contractors are not Town employees and may be used in the following

situations:

1. Short-term, peak workload assignments to be accomplished using personnel contracted through an outside temporary employment agency. In this situation, Town staff will closely monitor the work of these employees and minimal training will be required. However, they will always be considered the employees of the employment agency and not the City. All placements will be coordinated with the City Manager's Office and subject to the approval of the City Manager or designee.
2. Construction of public works projects and delivery of operating, maintenance or specialized professional services not routinely performed by Town employees. Such services will be provided without close supervision by Town staff, and the required methods, skills and equipment will generally be determined and provided by the contractor. Contract awards will be guided by the Town's purchasing policies and procedures.

PRODUCTIVITY

The City will constantly monitor and review its 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 Town employees.
4. Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
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.

CONTRACTING FOR SERVICES

General Policy Guidelines

1. Contracting with the private sector for the delivery of services provides the Town with a significant opportunity for cost containment and productivity enhancements. As such, the Town is committed to using private sector resources in delivering municipal services as a key element in the continuing efforts to provide cost-effective programs.
2. Private sector contracting approaches under this policy include construction projects, professional services, outside employment agencies and ongoing

operating and maintenance services.

3. In evaluating the costs of private sector contracts compared with inhouse performance of the service, indirect, direct and contract, administration costs of the Town will be identified and considered.
4. For programs and activities currently provided by Town employees, conversions to contract services will generally be made through attrition, reassignment or absorption by the contractor.