

POLICY: Guiding Fiscal Policy

ESTABLISHED: April 20, 2021

RESOLUTION NO.: None

I. Guiding Fiscal Policy

- A. Budget development by the City Manager will be guided by a long-term financial plan developed in consultation with City Council, the Mayor and other key stakeholders and adopted by City Council.
- B. If a department is projected to overspend by 1 percent of their total annual budget based on year-to-date performance as of the quarterly report, then the City should take corrective action to balance the budget.
- C. The City will, to the extent possible, avoid using non-recurring revenues to fund ongoing programs or services. Non-recurring revenues are the portion of the government's revenues that are not predictable to any degree and cannot be reasonably expected to continue year to year. Non-recurring revenue can also include settlements that are one-time payment.
- D. Recurring revenues are the portion of the government's revenues that can reasonably be expected to continue year to year, with some degree of predictability. Some revenue sources may have both non-recurring and recurring components. The goal of the City will be to provide transparency as to what portion of the revenue stream is reasonably expected to be collected each year.
- E. The City will establish a baseline estimate of what portion of the Documentary Transfer Tax is considered recurring by calculating the mean monthly amount collected since the increase to the rate was approved by voters in 2018. The average amount of tax collected from this source will be recalculated in April of each year to incorporate new data and the new average will be adopted as the baseline amount budgeted for the new fiscal year. This amount will be recalculated in January and adjustments will be included with the midyear budget update to City Council. Any excess tax collected through this source—amounts collected above the baseline—may be considered non-recurring revenue in that year and the City Council will prioritize how these funds are spent. The Council should prioritize and consider using recurring revenue to address recurring expenditures. Non-recurring revenue sources should not be used to fund recurring expenditures.
- F. Capital asset acquisitions will not be treated as recurring expenditures.

- G. If the City anticipates a General Fund deficit, new unrestricted funds must be considered first to support ongoing programs and close the deficit before funding new ones.
- H. The use of unencumbered prior-year balances in all funds as well as other non-recurring revenues shall be scrutinized and carefully limited to be used primarily for non-recurring expenditures. Non-recurring expenditures are defined as those that have a clearly recognized termination date connected to the completion of the identified purpose of the expenditure, even if the expenditure crosses multiple fiscal years.
- I. The City Council must approve any changes to position control irrespective of the impact to the City's operating budget.

II. Special Revenue Funds and Enterprise Funds

- A. Special revenue fund administrators must regularly evaluate and manage the balances within the fund to ensure that they are spent timely to achieve the fund's intent.
- B. Each enterprise fund shall reflect the true cost of operation, including direct and indirect costs of services provided by the General Fund.
- C. Enterprise funds should derive most of their revenues from charges, user fees and interest. Functions that are funded using enterprise funds should strive to be 100 percent self-supporting through annual reviews of their fee structures, charges for services, and other operating revenues and expenditures.
- D. It shall be the goal of all special revenue and enterprise funds to fully reimburse the General Fund for all direct expenditures and related costs provided to support their programs. Related cost reimbursements shall be calculated using the most current Cost Allocation Plan rate, unless otherwise restricted by an ordinance or policy that has been approved by the City Council. In the event that a fund does not fully reimburse the General Fund, any remaining subsidy shall be reported annually through the budget process.

III. Reserve Policies

- A. The City's goal shall be to achieve 21 percent of its operating General Fund expenditures as a minimum reserve policy. The City must balance the need for adequate reserves with its responsibility to provide services to the residents of Richmond. In years when the City forecasts that total General Fund revenues will be less than the current year's revenues, or anytime significant service reductions, such as layoffs or furloughs, are contemplated due to adverse financial conditions, use of the General Fund reserve must be considered to maintain existing services. Use of General Fund reserves must be authorized by City Council resolution explaining the need for use.

- B. Prior-year funds and surpluses will revert to their original funding sources with the exception of cost-recovery funds that will be permitted to maintain a reserve balance of 10 percent of the actual expenditures from the previous fiscal year. Those funds reverting to the General Fund will be allocated to the unassigned fund balance.
- C. In fiscal years where it becomes necessary for the City to use monies in the Reserve Fund such that the Reserve Fund balance drops below the twenty-one percent level, the City will initiate action in the subsequent year to replenish the Reserve Fund to the level of twenty-one percent of General Fund expenditures. If use of Reserve Fund monies is less than one percent of General Fund receipts, the City shall attempt to replenish the twenty-one percent balance in the subsequent fiscal year. If use of Reserve Fund monies is more than one percent of General Fund revenue, the City shall attempt to replenish the twenty-one percent balance by one percent per year over a period of years as necessary to restore the Reserve Fund balance to the level of twenty-one percent of General Fund expenditures.
- D. Risk Management Internal Service Fund reserves should be maintained at a level that adequately cover the City's self-insurance indemnity risk exposure to City property, liability, health benefits and workers compensation obligations.
- E. Reserve policies for equipment replacement internal service funds (e.g., Police CAD, Police RMS and Equipment Replacement) will be incorporate into the annual budget based on projected remaining useful lives of underlying assets (based on years and usage) and, to the extent that such funds include operating costs, will also include a goal to achieve a planned operating reserve of not less than 10 percent of operating and maintenance costs. The goal of achieving a 10 percent reserve, however, will not supersede the budgetary needs of providing city services and workforce needs.
- F. Enterprise fund administrators for the Port, Marina and KCRT enterprise funds are encouraged to establish a reserve policy for their funds where permitted and appropriate. These policies should set a target minimum reserve level that accounts for the unique characteristics and risks to the fund. The policies should also establish the appropriate uses of the reserves and set a timeframe both for meeting reserve targets if they have not yet been achieved and for replenishing reserves should they fall below the target minimum level.

IV. Encumbrances

- A. Once funds have been encumbered, they cannot be expended for anything other than what was authorized under the original encumbering authority, which could include a purchase order, contract, authority for expenditure, or travel authority. This policy does not prohibit the use of change order capacity which would allow purchase orders to be amended as long as the purpose of the encumbrance has not changed from what was originally authorized. City departments may disencumber and re-encumber funds within the same fiscal year.

- B. City departments may not increase a prior-year encumbrance, but they may disencumber one. Notwithstanding this Policy, prior-year encumbrances for capital projects may be increased if there is more money left on the contract. Only the City Council may reprogram prior-year disencumbered funds. At the end of a fiscal year, all unencumbered funds will revert to their respective fund balance , if the originating source is the General fund, to the unassigned fund balance.
- C. If funds are not disencumbered, they will continue to be regarded as obligated balances, thereby reducing the available unobligated account balances. Consequently, the timely disencumbrance of funds is necessary to reflect an accurate and updated status on the availability of funds. As a rule, any encumbered funds that remain unspent at the end of the fiscal year shall be unencumbered . An exception to this policy applies to encumbrances for commodities procurements, which include supplies or equipment. These encumbered funds shall be unencumbered and revert to fund balance if they remain unspent for a period longer than three years.

The City Manager is authorized to implement this Policy and to ensure funds are disencumbered at the appropriate time.

V. Fund Balances/Accounting

- A. The General Fund is the only fund in the City permitted to have a positive unassigned fund balance. Fund balances in any other fund outside of the General Fund should be earmarked monies either as restricted, committed, or assigned based upon the authority under which such categorizations have been given by Government Accounting Standards Board (GASB).
- B. New and expanded unrestricted revenue sources should be first applied to support existing obligations prior to funding new programs.
- C. Unrestricted General Fund revenue streams shall not be designated as restricted or special revenue funds. This in no way precludes the City from making appropriations from unrestricted revenues to achieve specific policy goals either as part of the budget process or during the fiscal year.
- D. Other than in the General Fund, unspent General Fund monies that were assigned to a specific purpose that are no longer applicable should not be reported as assigned fund balance, but rather, should be included in the unassigned fund balance of the General Fund by reporting those amounts as due to the General Fund. Fund balances will include amounts designated as “due to the General Fund” and “due from the General Fund” in budget reports accounting for the flow of funds.

VI. Fiscal Sustainability Planning

- A. Service level or work force reductions based solely on anticipated or current budget deficits cannot be adopted by City Council until all other sources of funds including reserves and other fund balances have been considered to cover budget gaps.
- B. Multi-year General Fund operating cost projections, which forecast revenues and expenditures, shall be prepared and updated each year, or as necessary, to identify and evaluate the financial condition of the City over a four-year period, at a minimum. This forecast shall be reported to the City Council as part of the annual budget development process. Projections shall be developed using available data, historical trends, and an evaluation of anticipated future impacts to revenues and expenditures. Departments shall prepare a forecast for each major special fund and special fund facing structural imbalance that they administer and present it with their annual budget request.
- C. When initiating multi-year projects or adding new items to the budget with future-year expenditure requirements, the City shall consider its ability to continue to pay these future year expenses.
- D. The City will pursue federal, state, and private grants but will carefully analyze the need for, and availability of, required financial support of these programs beyond grant funding. City Council will determine whether grant funding supplants or augments current funding for programs. Any such financial support must be reported at the time that the City considers accepting the grant. Financial support includes, but is not limited to, an obligation for a current or ongoing City match and a need to maintain a service level following the termination of the grant.
- E. The City will continuously seek new revenues and pursue a diverse revenue base in order to limit the impact to the City from short-term fluctuations in any one revenue source. The City must consider taxes that are not regressive.

VII. Debt Management

- A. Short-term debt in the form of Tax and Revenue Anticipation Notes will be considered as a viable option to support ongoing operations.
- B. Long-term debt will not be used to support ongoing operations.
- C. Capital leases may be used as a mid-term borrowing arrangement for fleet, equipment, and technology uses to the extent that the imputed interest rate in any such capital lease is competitive with existing long-term borrowing rates, considers potential maintenance cost savings for assets under the capital lease, and that such costs are incorporated into the long-range financial forecast.
- D. Long-term borrowing (three years or more) for capital facilities will be considered as an appropriate method of financial facilities that benefit more than one generation of users and to the extent that existing reserves or other one-time resources are not available.

- E. The City will no longer be permitted to use interest rate swaps when issuing debt.
- F. The City's finance department present value analysis must identify the economic effect of any proposed refunding and shall periodically evaluate potential savings to the City from financing outstanding debt (Refundings). Savings will be analyzed on a present value basis with the goal of achieving a Present Value Savings of three percent of the refunded par amount for any one refunding transaction. The Finance Director may recommend a refunding that has economic benefit, but does not meet the Present Value Savings Goal of three percent; however, the Director must present to the Mayor and City Council the reasons for advocating for the refunding explaining the benefits and the costs.
- G. The use of variable interest rate debt instruments should be analyzed as part of a strategy that benefits from the out-performance of the variable rate market to fixed rate debt, and to determine the appropriate level of risk exposure for the City to accept.

VIII. Private Developments

Private development of residential, commercial and/or industrial properties shall pay all contractual obligations for capital or other improvements that are necessary to serve the development and should not be subsidized by public funds except in cases where there is a direct financial benefit to the City that is at least fiscally proportional to the subsidy being offered to the developer. Should a development not move forward, in addition to any other contractual requirements owed to the City, the developer must reimburse the City for the amount of the subsidy provided to the developer.

IX. Capital and Technology Projects

A. Objectives and Project Prioritization

1. A minimum five-year capital improvement plan will be developed as part of the budget process to identify capital projects based on a system of prioritization and considering funding resources that are available.
2. City Council will determine how capital projects are prioritized.
3. The City shall identify projects for funding on an annual basis through a systematic and transparent process that is consistent with the City's annual budget development process and that reflects the prioritization criteria detailed in Project Prioritization Criteria as detailed in number 4.
4. Project Prioritization Criteria – projects should meet one of the standards under each subheading and the criteria apply not only to projects in the 5-year capital plan, but also for projects applied for through the grant process.

- a) Resilience and Sustainability
 - (1) Project improves the health of the community and natural environment through sustainable designs with improved water resources and regional air quality and reduced greenhouse gas emission that contributes to climate change, open space and land for preservation, habitat protection and biological diversity, and enhanced urban runoff management.
 - (2) Project facilitates multiple transportation options (including walkability, bicycles, and public transportation) and reduces the need for auto-dependency
 - (3) Project promotes infill development, where appropriate.
 - (4) Project incorporates design that meets or exceeds recognized Federal and State standards in the field of energy efficiency, such as State of California Title 24 Energy Efficiency Standards, or LEED building standards.
 - (5) Project results in greener neighborhoods and reduces or avoids the potential public exposure to pollutants, contamination and other hazards to public health and environment.
- b) Impact to City Operations, Asset Condition, Annual Recurring Costs and Asset Longevity
 - (1) Project is necessary to meet the basic level of service needs.
 - (2) Project avoids potential infrastructure failure.
 - (3) Project minimizes maintenance needs by improving infrastructure and/or reducing future costs.
 - (4) Project delay would create significant future costs, or negative community impacts.
- c) Equitable Community Investment and Economic Sustainability
 - (1) Project contributes toward economic development and revitalization efforts.
 - (2) Project will benefit underserved communities including those with low- income households, low community engagement, limited or no access to the internet, and low mobility or access to transportation systems.
 - (3) Project benefits communities that have the highest population served per acre.
- d) Project Readiness
 - (1) Project is ready to enter the phase corresponding to the funding requested (e.g., a design-build project with a completed environmental document will rank higher than a design-build project without a complete environmental document).

- (2) Project shall be ranked based upon the delivery method. Projects that can be delivered most expeditiously shall be preferred.
- e) Funding Availability
 - (1) Projects that have higher leveraging of City funds against external funds (grant funds or cost sharing from outside entities) will receive greater priority.
 - (2) Project rank is increased based on assessment of the amount of funding needed to complete the current project phase and the entire project.
- f) Multiple Category Benefit and Bundling Opportunities
 - 1) Project reduces construction costs and community disruption by potentially bundling with adjacent projects.
 - 2) Project provides for partnering or bundling opportunities with other local, state, or federal agencies (e.g., leverages shared resources).
 - 3) Completion of the project sooner may provide significant financial benefits.

5. Cost Estimates

- a) Cost estimating is an iterative process that should be done at significant milestones during the development of capital and technology improvement projects. Cost estimating should develop a greater degree of detail and accuracy at each milestone and provide a major budgetary control mechanism on every project.
- b) For purposes of initial scoping, preliminary cost estimates may be based on industry standards or existing practices.
- c) Once a project has been funded, cost estimates should be prepared after each applicable phase, such as space planning, preliminary design, conceptual design, final design (just prior to bid initiation), and on change orders during construction or implementation.
- d) Cost estimates should be as complete as possible based on the information available at milestones and should address such areas as CEQA or NEPA compliance, land acquisition, grant funding requirements, design, construction, furniture, fixtures and equipment, software and hardware, contingency funding, costs associated with staffing, maintenance and other additional incremental costs that may be incurred once the project is complete.

6. Funding Requirements

- a) Total requested funding should identify the total amount needed to complete the project, potential sources of funding including any applicable restrictions, options for phased implementation, and a timeline with milestones and the corresponding funding needed to accomplish each milestone.
- b) The funding requirement should include the estimated amount needed to fund ongoing maintenance, programming, and operating needs of the project.