



**CITY OF HEMET
Hemet, California
RESOLUTION NO. 4498**

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HEMET, CALIFORNIA, APPROVING FINANCIAL POLICIES FOR THE CITY OF HEMET AND ADOPTING THE GUIDELINES FOR CLASSIFYING THE VARIOUS COMPONENTS OF FUND BALANCE AS DEFINED IN GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 54.

WHEREAS, the City desires to provide a stable environment for the City's operations that allow the City to provide quality services to its residents in a fiscally responsible manner;

WHEREAS, to ensure fiscal prudence and responsibility, the City desires to establish financial policies to govern financial decision making;

WHEREAS, the City desires comply with Governmental Accounting Standards Board (GASB) Statement No. 54 regarding classification of fund balances;

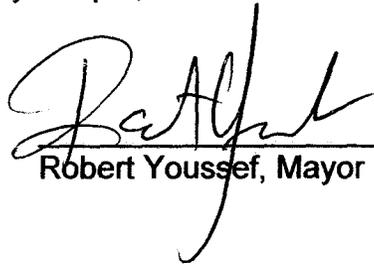
The City Council of the City of Hemet does resolve as follows:

SECTION 1. That the attached "Hemet Financial Policies" are approved.

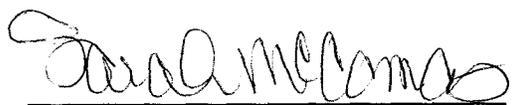
SECTION 2. The City Clerk shall certify to the adoption of this resolution.

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PASSED, APPROVED, AND ADOPTED this 24th day of April, 2012.


Robert Youssef, Mayor

ATTEST:


Sarah McComas, City Clerk

APPROVED AS TO FORM:

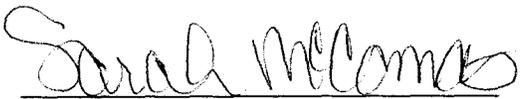

Eric S. Vail, City Attorney

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State of California)
County of Riverside)
City of Hemet)

I, Sarah McComas, City Clerk of the City of Hemet, do hereby certify that the foregoing Resolution is the actual Resolution adopted by the City Council of the City of Hemet and was passed at a regular meeting of the City Council on the 24th day of April, 2012 by the following vote:

- AYES: Council Members Franchville, Krupa, Smith and Mayor Youssef**
- NOES:**
- ABSTAIN:**
- ABSENT: Mayor Pro Tem Foreman**


Sarah McComas, City Clerk

City of Hemet Financial Policies

The City Council of the City of Hemet has established a comprehensive set of financial policies for the City that will serve as a guideline for operational and strategic decision-making related to financial matters. The goal is to maintain the City's financial stability in order to sustain and enhance a sound fiscal condition.

A. Fund Balance Reporting Policies (GASB 54)

Reporting of Fund Balance (defined as the excess of assets over liabilities) in the City's Financial Statements is guided by the following policies:

NOTE: This section is for Financial Reporting purposes only, does not change budgetary/spending authority.

1. The City will comply with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental *Fund Type Definitions*. GASB 54 defines five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent:
 - a) Nonspendable fund balance (not in spendable form such as inventories, prepaids, long-term receivables or non-financial assets held for resale).
 - b) Restricted fund balance (externally enforceable limitations on use such as debt covenants, grantors, contributors, or laws and regulations of other governments).
 - c) Committed fund balance (constrained to specific purposes by a formal action of the City Council such as an ordinance, resolution or Council Policy).
 - d) Assigned fund balance (limited to the Council's intent to be used for a specific purpose, but not restricted or committed such as economic stabilization or continuing appropriations).
 - e) Unassigned fund balance (residual net resources, either positive or negative, in excess of the other four fund balance components). Unassigned amounts are available for any purposes with City Council approval.

2. GASB 54 recommendations for purposes of financial reporting, when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balances, and finally unassigned fund balance.
3. This policy delegates to the City Manager (or his/her designee) the authority to assign unrestricted fund balance amounts (residual amounts after all reserve requirements are met) where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

B. General Operating Budget Policies

Preparation of the City's operating budget is guided by the following policies:

1. All budgetary procedures will conform to any legal requirements and generally accepted accounting principles (GAAP).
2. The City Council shall adopt an annual operating budget by June 30. The Council may amend or supplement the budget at any time after its adoption by majority vote of the Council. The City Manager has the authority to transfer monies appropriated within the same fund for the same department provided the total amount within a fund has not changed. Budget transfers in excess of \$50,000 will be presented to the City Council for approval.
3. It is the intent of this policy that the budget be structurally balanced (a) at the time of adoption, (b) throughout the budget year, and (c) at year-end. A structurally balanced budget requires that operating revenues must fully cover operating expenditures, including debt service. Beginning fund balance (i.e., "reserves") can only be used to fund capital assets or projects, or other "one-time" non-recurring expenditures.
4. The City will take corrective actions on a quarterly basis during the fiscal year if expenditure and revenue estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of reserves (upon City Council approval).

5. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of fund balance (i.e., reserves) to balance the budget is permitted (upon Council approval). In the event that a budget shortfall is projected to continue beyond one year, the planned use of fund balance must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases and/or expenditure decreases.

6. If, during the annual budget process, it is determined that there will be ongoing projected revenues for the General Fund which will exceed proposed budgeted expenditures, at least 50% of the excess revenues will be budgeted to reduce long-term unfunded liabilities (examples include: capital needs, OPEB, Liability Reserves, etc.).

Should a portion of any unrestricted fund balance (i.e., committed, assigned and unassigned combined) of the General Fund ever exceed an excess of requirements for each category, the City Council will consider such one-time fund balance surpluses to be used to retire existing debt and/or fund future liabilities (such as OPEB).

7. The annual budget review process should include an assessment to determine if funds are available to operate and maintain proposed capital facilities and other public improvements. If funding is not available for operations and maintenance costs, the City will delay construction of new projects. Funding for new programs and services in operating funds should be limited to the extent that they can be reasonably funded over the near- to-long-term given the current revenue. Positions funded via grants will terminate when the grant expires unless alternative on-going funding sources are identified to retain positions and approved by Council.

8. The City will use "prudent revenue and expenditure assumptions" in the development of the operating budget. Revenue estimates will be prepared on a conservative basis to minimize the economic fluctuations that could imperil ongoing service programs during the upcoming budget cycle. Debt financing will not be used for operating expenses.

C. Expenditure Policies

Expenditures of available resources are guided by the following policies:

1. Expenditures may not exceed appropriations at the department and fund level. Primary responsibility and authority for the expenditure of monies according to the adopted budget will be vested by the City Manager in the department heads. The Finance Department has secondary responsibility to review and audit all expenditures to confirm the mathematical accuracy along with verification that all expenditures are for a City of Hemet public purpose and are supported by complete and accurate documentation.

2. The City's goal is to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated revenues.
3. Long-term debt or bond financing shall not be used to finance operating expenditures.
4. The City shall avoid budgetary procedures which rely on financial strategies that defer payment of current operating expenses to future years.
5. All compensation planning and collective bargaining will focus on the total cost of compensation, which includes direct salary, health care benefits, pension contributions, and other benefits of a non-salary nature which are a cost to the City.
6. Capital expenditures may be funded from special revenues (i.e., developer impact fees, grants, bond financing, etc.), one-time operating revenues or fund balances.
7. The City will, if current resources allow, budget for contributions to on-going capital replacement needs, future liability costs, and OPEB (retiree medical liability) costs.

D. Revenue Policies

A revenue system to assure reliable and sufficient revenue stream to support desired City services will be guided by the following policies:

1. Strive to maintain a diversified and stable revenue system to shelter the City from short-term fluctuations or legislative shifts in any one revenue source.
2. Systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation. User fees should recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest. Enterprise and Internal Service fees will be on a 100 percent cost-recovery basis with no General Fund subsidy. The City will maintain a comprehensive schedule of all fees and charges.
3. All non-restricted revenues will be deposited into the General Fund and appropriated by the budget process. Program revenues will be deposited in the corresponding business unit to offset program expenditures. Specific revenue sources will not be dedicated for specific purposes unless required by law or generally accepted accounting principles (GAAP). This will preserve the ability of the Council to determine the best use of available revenues to meet changing service requirements.

4. One-time revenues will be used only for one-time expenditures, debt reduction or reserve enhancement since they cannot be relied on in future budget periods. Examples of one-time revenues are: sale of government assets, bond refunding savings, litigation settlement, other unexpected revenues; examples of one-time expenditures are: startup costs of new program, rate stabilization fund, early debt retirement, capital purchases. If revenues from one time or limited duration sources are used to balance the City's annual operating budget, it is to be fully disclosed and explained at the time the budget is presented.

E. General Fund Reserve Requirements

General Fund Reserve rules have been established by the City Council as set forth in Ordinance No. 12-031 codified in Sections 2-458 et seq., of Division 7 "General Fund Reserve Requirements" of Article V "Finance" of Chapter 2 "Administration" of the Hemet Municipal Code."