

CHAPTER FOUR. FINANCIAL MANAGEMENT

SUBCHAPTER 4.01: Budget Procedures and Reserve Policies

Division 1: General

4.01.010 Purposes

The purposes of this subchapter are to adopt rules governing the proceedings for administering the financial affairs of the City, to establish a standard procedure for the preparation and administration of budgets, to place responsibility for the tasks related to budget preparation and administration, and to establish policies for maintaining reserves. The provisions of this subchapter are intended to enable the City Council to make financial plans for both current and long-term expenditures, to insure that the executive staff administers its respective functions in accordance with the plans set forth in this chapter, and to permit taxpayers and investors to form intelligent opinions based on sufficient information as to the financial policies and administration of the City. For the accomplishment of these purposes, the provisions of this chapter shall be broadly construed.

[*History:* Formerly § 1.09.010; Ord. 503, 12/11/96; Ord. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.020 Definitions

For the purposes of this chapter, unless otherwise apparent from the context, certain words and phrases used in this chapter are defined as follows:

Appropriation means an authorization granted by the City Council to make expenditures and to incur obligations for specific purposes.

Assigned Reserve means the spendable amounts set aside for Litigation, Insurance, Disaster Response and Recovery, and any other specific purposes or contingencies authorized by resolution of the City Council;

Budget means a plan of financial operation setting forth estimated revenues, authorized operating expenditures, authorized capital expenditures and reserves for the applicable fiscal year, and shall include all proper adjustments or amendments thereto.

Capital outlay means an expenditure for an asset having a value of at least ten thousand and no/100 dollars (\$10,000) and a useful life of more than two (2) years, and which is required by generally accepted accounting principles to be capitalized.

Capital project means all related expenditures, including design, inspection, financing, acquisition of real property, and the like, for a public improvement, such as a public building, utility installation, street or bridge construction, or other public works.

Committed Reserve means the spendable amounts set aside to meet the Town's long-term obligations in the areas of Debt Reduction, Retiree Healthcare and Budget Stabilization.

Encumbrance means an obligation in the form of a purchase order or contract.

Expenditure means any charge incurred.

Fiscal year means the year beginning on July 1 each year and shall end on June 30 of the subsequent year.

Full Time Equivalent means the decimal equivalent of a full-time employment position; i.e., one full time position is 1.00 FTE and one quarter-time position is .25 FTE.

Nonspendable Fund Balance means the amounts associated with inventories, prepaid expenses, and other items legally or contractually required to be maintained intact, such as cash with the fiscal agent.

Reserve means an amount set aside for future projects, contingencies, and unforeseen events.

Restricted Fund Balance means the amount that are subject to externally enforceable legal restrictions imposed by outside parties (i.e. creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Unassigned Reserve means the amount of the spendable fund balance that is not otherwise appropriated, or accounted for in the Assigned Reserve or the Committed Reserve.

Unencumbered appropriation means that portion of an appropriation not yet expended or encumbered.

Total Reserve means the sum of the Unassigned, Assigned and Committed Reserves.

[History: Formerly § 1.09.020; ORD. 503, 12/11/96; ORD. 533, 7/8/98; ORD. 666, 2/13/08; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14; Res 2018-47, 10/24/18]

Division 2: Budget Procedures

4.01.030 Procedure for Adoption of Budget

(a) The City Manager shall submit to the City Council a proposed budget on or about May 31 of each year.

(b) Prior to adopting the budget, the Town shall post notice of and hold at least one public meeting followed by one public hearing on the proposed budget, which shall be at least five days apart. The budget may be adopted at the same meeting at which there is the public hearing.

(c) The budget for the ensuing fiscal year shall be adopted not later than June 30 and shall be adopted by resolution of the City Council.

[History: Formerly §1.09.030; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.040 Proposed Budget and Budget Message

(a) The proposed budget shall include, but not be limited to:

- (1) The City Manager's budget message;
- (2) Line item schedules of revenue by source;
- (3) Line item schedules of expenditures by department and function or by program;
- (4) A summary of estimated available fund balances;
- (5) Line item schedules of reserve(s); and
- (6) The appropriation limitation for the budget year.

(b) The budget message submitted by the City Manager shall explain the budget, contain an outline of the proposed financial policies for the fiscal year, and describe the important features of the budget plan. The budget message shall set forth the reasons for important or significant changes from the current year in appropriation and revenue items and shall explain any major changes in financial policy.

(c) As a part of the budget message, the City Manager shall include, or attach thereto, a program of proposed capital projects for the budget year and (for planning purposes only) the four (4) fiscal years next succeeding the budget year, together with comments thereon and any estimates of costs prepared. The adoption of a budget for a fiscal year shall not be an authorization of the capital projects for subsequent years described in the budget message except as specifically authorized by the City Council.

(d) Attached to the budget message shall be such supporting schedules, exhibits, and other explanatory material, in respect to both current operations and capital improvements, as the City Manager believes useful to the governing body. The proposed budget shall include historical data on revenue and expenditures by major category.

[History: Formerly § 1.09.040; ORD. 503, 12/11/96; ORD 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.050 Adoption; Effect

(a) The adoption of a budget, an amended budget, or a supplemental appropriation shall constitute an authorization to the appropriate Department Head to expend funds for the items specified in the budget up to the total annual amount specified for that line item, subject to the limitations set forth in this ordinance.

(b) Upon adoption, the budget shall be in effect for the entire fiscal year, subject to adjustment or amendment as set forth in this ordinance.

[History: Formerly § 1.09.050; ORD. 503, 12/11/96; ORD 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.060 Failure to Adopt

If the City Council fails to adopt the budget on or before June 30, the proposed budget, as submitted, shall constitute an appropriation as to all expenditures proposed therein until August

31 or until further action by the City Council, whichever occurs first, except that such failure to adopt shall not authorize the hiring of an additional employee or the expenditure for any capital outlay requested in the proposed budget. The sole purpose of this section is to provide for continuing authority to incur expenditures for a period of sixty (60) days pending final City Council action on the budget.

[*History:* Formerly § 1.09.060; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.070 Adjustments to Budget

(a) Within thirty days after adoption of a Budget or amended Budget by the City Council, the City Manager may adjust the budget or amended budget for any of the following purposes:

- (1) To conform any authorized expenditure or estimated revenue, including any Budget Schedule in the Budget Message, to final City Council action adopting the Budget;
- (2) To reflect all required debt service payments in accordance with the official statements filed by the City's auditors; or
- (3) To complete any capital improvement project or discharge any obligation under contract or purchase order previously authorized by the City Council.

(b) At any time after adoption of a Budget or amended Budget by the City Council but within thirty days after receipt of the following information, the City Manager may adjust the budget or amended budget for any of the following purposes

- (1) To reflect changes relating to personnel obligations, such as retirement rates, payroll taxes, health benefits and salary increases mandated by a Memorandum of Understanding with an employee bargaining unit; or
- (2) To reflect changes in other insurance costs, such as liability insurance, workers' compensation insurance, and deductibles.

(c) The adjustments authorized by this section shall include an increase in authorized expenditure and the transfer of funds from an undesignated line item to the adjusted line item, or vice versa.

(d) The City Manager shall make a written report to the City Council by August 31 explaining each adjustment and the reasons therefore.

(e) At any time after adoption of a Budget but prior to the completion of the annual financial audit, the City Manager may adjust the capital budget carryover appropriations to restore project budgets to City Council previously approved appropriation levels. At the City Manager's discretion and consistent with City Council's direction during project adoption, unspent project budgets may be excluded from carryover appropriation analysis. A summary of carryover analysis shall be presented to the City Council within 30 days of the annual audited financial update.

[History: Formerly §1.09.070; ORD. 503, 12/11/96; ORD 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.080 Amendments to Budgets

The City Council may adopt amendments to the budget, make revisions, or approve supplemental appropriations.

[History: Formerly § 1.09.080; ORD. 503, 12/11/96; ORD 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.090 Budget Administration

(a) The City Manager shall have charge of the administration of the financial affairs of the City and to that end shall supervise and be responsible for the disbursement of all moneys and have control over all expenditures to insure that appropriations are not exceeded. The City Manager shall institute such procedures as may be necessary to discharge this responsibility, including a purchase order procedure.

(b) The City Manager will be responsible for assuring that expenditures do not exceed the total appropriation for all capital projects by reviewing monthly project reports to identify potential project overages and determining how to address the overage; and, signing off as final approval on all expenditure budget adjustments.

(c) The City Manager shall develop the necessary procedures for the effective implementation of this chapter.

[History: Formerly § 1.09.090; ORD. 503, 12/11/96; ORD. 533, 7/8/98; ORD. 666, 2/13/08; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.100 Transfers of Appropriation Balances

(f) A Department Head may transfer funds from any unencumbered balance of any appropriation from one line item to another within his or her department, and shall promptly report such transfer to the City Manager.

(g) The City Manager may transfer funds from any unencumbered balance of any appropriation in a department to another department, provided, however, that the total of all such transfers for any department, shall not increase or reduce the appropriation for that department by more than fifty thousand dollars (\$50,000) in the fiscal year.

(h) No transfer shall be made from any line item which would create a negative balance in the line item.

[History: Formerly § 1.09.100; ORD. 503, 12/11/96; ORD 533, 7/8/98; ORD 666, 2/13/08; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.110 Lapse of Appropriations and Transfers to Reserves

All appropriations shall lapse and be transferred the Unassigned Reserve at the end of the

budget year to the extent that they shall not have been expended, lawfully encumbered, or placed in another reserve.

[*History:* Formerly § 1.09.110; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.120 Appropriation Limitations

The budget adopted shall not exceed the appropriation limit for the budget year. The total expenditures for each fund must be balanced with estimated revenues, a transfer from reserves, and other available resources for that fund.

[*History:* Formerly § 1.09.120; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.130 Other Limitations

(a) All expenditures of funds shall comply with all other Town ordinances, including the Town's Purchasing Ordinance. All capital outlays shall be approved by the City Council. The cancellation (without completion) of a capital outlay must also be approved by the City Council.

(b) No expenditures at the department level shall exceed the Approved or Amended Budget, by fund.

(c) Projected deficiencies in any department by fund must be corrected by:

(1) An inter-departmental appropriation transfer; or

(2) An appropriation transfer from Reserves.

(d) If additional funds are not available to correct a projected deficiency, the City Manager shall take such steps necessary to reduce expenditures in said department, including a freeze on filling vacant positions or restrictions on purchase orders.

(e) The City Council shall act on any projected fund deficits prior to the close of the Fiscal Year.

[*History:* Formerly § 1.09.130; ORD. 503, 12/11/96; ORD. 533, 7/8/98; ORD 666, 2/13/08; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

Division 3: Governmental Fund Reserves

4.01.140 Purposes

The Town will establish and maintain reserve balances to:

(a) Guard its citizens against service disruptions in the event of economic uncertainties, local disasters and other financial hardships;

- (b) Provide for fluctuations in revenues and expenditures while ensuring adequate cash flow;
- (c) Enable the Town to implement innovative opportunities for the betterment of the community;
- (d) Demonstrate continued credit worthiness to bond rating agencies and the financial community, and
- (e) Reduce future unfunded liabilities.

[History: Formerly § 1.09.140; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14; Res 2018-47, 10/24/18; Res. 2021-007, 4/14/21]

4.01.150 Governmental Fund Reserve Policy

(a) The Town's Governmental Fund shall contain reserves, which shall be classified as Nonspendable Fund Balance, Restricted Fund Balance, Committed Reserve, Assigned Reserve, or Unassigned Reserve. The Town shall maintain minimum reserve balances according to the requirements set forth in this section.

(b) The Nonspendable Fund Balance shall be maintained in an amount as required by law and Generally Accepted Accounting Principles (GAAP).

(c) Restricted Fund Balance shall be maintained as follows:

- (1) The Other Post-Employment Benefit (OPEB) Trust must comply with IRC Code Section 115. The Trust Balance shall be restricted to the purpose of paying or reimbursing the Town for retirees' medical and dental costs. The OPEB Trust shall be part of the budget stabilization strategy and may be utilized to offset rising OPEB costs as directed by the City Council. The OPEB Trust Balance must be maintained in a separate fund account from General Fund. The intent is that the OPEB Trust reach 100% funded status.
- (2) The Budget Stabilization Pension Trust, separate from the CalPERS pension trust, must comply with Internal Revenue Code Section 115. The Trust Balance shall be restricted to pay or reimburse the Town for pension contributions to CalPERS. Eligible pension payment or reimbursement shall include normal cost, unfunded liabilities, and supplemental contribution. The Trust Balance must be maintained in a separate fund account from General Fund. The intent is that the Trust reach 100% funded status.
- (3) The Town may have other restricted funds as required by law, contract, and GAAP.

(d) Committed Reserves shall be maintained as follows:

- (1) There shall be a Debt Reduction Reserve, in an amount reasonably estimated to pay the Town's debt service (principal plus interest) on any outstanding, long-term debt instruments, including Certificates of participation, for two years;
 - (2) There shall be a Budget Stabilization Reserve, in an amount sufficient to ensure continuity of operations in the event of a severe economic downturn, which amount is hereby determined to be one hundred percent (100%), rounded to the nearest \$100,000, of the General Fund expenditures for the prior fiscal year, excluding appropriations toward accrued leave payout due to employment separation and two years of pension and OPEB contributions;
 - (3) There shall be an Accrued Leave Reserve committed for vacation, management, floating holidays, and comp-time payout (and sick leave when related to retirement) when an employee separates from the Town. The amount committed will be determined as part of the budget process, but shall be no less than 2% of regular payroll until the reserve total is 80% of the audited compensated absence liability in the prior fiscal year; and
 - (4) There may be other committed fund balances, as approved by the City Council that shall be maintained in accordance with Council's direction.
- (e) Assigned Reserves shall be maintained as follows:
- (1) There shall be a Litigation Reserve, in the amount of \$100,000, to pay the Town's costs and attorneys' fees necessary for the initiation or defense of new litigation authorized by the City Council after adoption of a budget for the fiscal year in which the litigation commenced; and
 - (2) There shall be an Insurance Reserve, in the amount of \$100,000, to pay for any deductibles charged to the Town by its insurance carrier(s) not accounted for in the adopted budget; and
 - (3) There shall be a Disaster Response and Recovery Reserve, in the amount of \$750,000, to pay the Town's costs of emergency repairs to or replacements of parts of the Town infrastructure damaged by any natural or man-made disaster, or to abate or prevent further damage to life or property; and
 - (4) There shall be a Capital Improvement Reserve in the Capital Improvement Fund to be assigned to capital projects, as approved by the City Council as part of the budget process. The minimum annual contribution shall be \$500,000, for a total reserve of up to \$8,000,000 or as directed by the City Council; and
 - (5) There may be other assigned fund balances, as approved by the City Council that shall be maintained in accordance with Council's direction.
- (f) The Unassigned Reserve shall consist of the balance of all amounts not otherwise expended, encumbered, or reserved.

[History: Formerly § 1.09.150; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14; Res 2014-26, 5/14/14; Res 2018-47, 10/24/18; Res 2021-07, 4/14/21]

4.01.160 Use, Transfer and Replenishment of Restricted Reserves

(a) The use of all restricted funds must comply with legal stipulations applicable to the fund and approved by the City Council. Balances must be maintained separately and are not transferable.

(b) The Pension Trust shall be replenished annually and in the amount equal to the difference between the CalPERS discount rate and the calculated annual contribution based on 6% discount rate or as directed by the City Council during an economic recession and depression.

[History: Formerly § 1.09.160; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14; Res 2018-47, 10/24/18; Res 2021-07, 4/14/21]

4.01.170 Use, Transfer and Replenishment of Committed Reserves

(a) The use, transfer, and replenishment of committed reserves and fund balances requires City Council approval as part of an open and public meeting.

(b) Debt Reduction Reserve and Budget Stabilization Reserve shall not be replenished without express approval of the City Council given at an open and public meeting.

(c) Accrued Leave Liability Reserve shall be replenished annually at 2% of regular payroll and as approved by the City Council as part of the budget process. The Reserve shall be used to pay for accrued leave payout at separation of employment. Sick leave payout is only eligible at retirement in accordance to Colma Administrative Code Subchapter 3.06 and corresponding Memorandums of Understanding.

[History: Formerly § 1.09.170; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14; Res 2018-47, 10/24/18; Res 2021-07, 4/14/21]

4.01.180 Transfer and Replenishment of Unassigned Reserve

(a) The City Manager may transfer funds from the Unassigned Reserve to any department, program or other fund, provided, however, that the total of all such transfers for any department, program or fund shall not increase or reduce the appropriation for that department by more than fifty thousand dollars (\$50,000) in the fiscal year.

(b) Except as provided in the preceding paragraph (a), no transfer shall be made from the Unassigned Reserve without express approval of the City Council given at an open and public meeting.

(c) All appropriations that have not been expended, lawfully encumbered, or placed in another reserve, and all surplus revenues as of June 30 shall be placed in the Unassigned Reserve.

[History: Formerly § 1.09.180; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14]

4.01.190 Annual Surplus

(a) In the years the Town experiences a General Fund surplus, the Town shall allocate the excess to replenish reserve requirements in the following order:

- (1) Replenish Budget Stabilization Reserve up to 100% of the non-pension and non-OPEB General Fund expenditure in the prior fiscal year, if needed;
- (2) Contribute up to 10% of surplus to Accrued Leave Liability Reserve to reach the 80% funded status;
- (3) Allocate 25% of General Fund surplus to Capital Improvement Fund (31); and
- (4) Allocate 50% of General Fund surplus to reduce unfunded OPEB and Pension liabilities per City Council direction, including additional contributions to OPEB and Pension trusts and supplemental payment to CalPERS.

[History: Res 2021-07, 4/14/21]

Division 4: Reports

4.01.200 Monthly Reports

The City Manager shall file with the City Council monthly reports on the appropriation status and revenue receipts and shall advise the City Council of significant deviations from the adopted budget.

[History: Formerly § 1.09.190; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14, Res 2021-07, 4/14/21]

4.01.210 Mid-year Review

Each fiscal year, the City Manager shall submit to the City Council a mid-year review regarding the Town's fiscal performance, fund availability and department needs and accomplishments. Potential overages and the use of potential savings should be compiled in a report and presented to the City Council for consideration.

[History: Formerly § 1.09.200; ORD. 503, 12/11/96; ORD. 533, 7/8/98; ORD. 666, 2/13/08; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14; Res 2021-07, 4/14/21]

4.01.220 Report on Reserve Levels

(a) The City Manager shall report on the reserve levels to the City Council as follows:

- (1) During the annual budget adoption process, the City Manager shall project the ending reserve levels; and

(2) When the auditor presents the Town's audited financial statements to the City Council, the City Manager shall report the Actual Reserve Levels as of the end of the fiscal year.

(b) At any time, if the Unassigned Reserve becomes depleted, or is projected to become depleted within the fiscal year, the City Manager shall provide a report to the City Council, along with a plan to maintain the Unassigned Reserves with a positive balance.

[*History:* Formerly § 1.09.210; ORD. 503, 12/11/96; ORD. 533, 7/8/98; Res 2011-40, 10/12/11; Res 2014-07, 2/13/14; Res 2021-07, 4/14/21]