

**Purpose:**

It is the expectation and general understanding the City Council and the citizens of Chula Vista that the City conducts its financial affairs in a thoughtful and prudent manner. The following financial policies are established to provide the direction and limits within which the City is to fulfill its fiscal responsibilities.

**Background:**

The City of Chula Vista has historically managed its finances responsibly. Reserves have been established and policies have been developed to overcome economic uncertainty.

This Policy establishes guiding principles for future staff, sets forth guidelines against which current budgetary performance can be measured, and provides values to assist with evaluation of future programs.

**Policy:**

The City's financial assets will be managed in a sound and prudent manner in order to ensure the continued viability of the organization. This will be achieved through the implementation of the following policies:

**I. Balanced Budget**

1. A comprehensive operating and capital budget for all City funds will be developed annually and presented to the City Council for approval. The purpose of the annual budget will be to:
  - A. Identify community needs for essential services.
  - B. Identify the programs and specific activities required to provide these essential services.
  - C. Establish program policies and goals that define the nature and level of program services required.
  - D. Identify alternatives for improving the delivery of program services.
  - E. Identify the resources required to fund identified programs and activities, and enable accomplishment of program objectives.
  - F. Set standards to facilitate the measurement and evaluation of program performance.
2. The City will maintain a balanced operating budget. Operating revenues will fully cover operating expenditures, including debt service, each fiscal year.
3. Recurring revenues will fund recurring expenditures. One-time revenues will be used for capital, reserve augmentation, or other non-recurring expenditures.
4. Current expenditures should be paid with current revenues or cash reserves in excess of minimum reserve requirements.

5. Current expenditures should not be balanced by postponing needed expenditures, accruing future revenues, issuing short-term debt, or paying for routine operating costs out of minimum cash reserves.
6. The operating budget should provide for adequate maintenance of fixed assets and equipment and provide for their orderly replacement.
7. City will track revenues and expenditures on an on-going basis, and attempt to anticipate future trends beyond the current budget cycle in order to maintain a balanced budget.
8. Ending fund balance must meet minimum policy levels. See City Council Policies 220-03 and 220-04 (General Fund Reserves – Fiscal Health Plan and Sewer Service Revenue Fund Reserve).
- 8.9. The City's operating budget shall exclude unrealized gains or losses resulting from the change in fair value of investments.

## **II. Budget Development**

1. Budget development will take place in an open and publicly accessible forum.
2. Public involvement is encouraged.
3. The City will use a five-year financial plan and a long-term financial forecast model to promote orderly spending patterns, engage in long-range planning, and reduce the time and resources spent preparing annual budgets.

## **III. Financial Reporting**

1. The City will contract for an annual audit by a qualified independent certified public accountant and will strive for an unqualified auditor's opinion. See City Charter § 1017 (Independent Audit).
2. The City's relationship with its independent public accounting firm will be reviewed every five years, at minimum.
3. Accounting systems will be maintained in accordance with Generally Accepted Accounting Principles (GAAP).
4. The City will adhere to a policy of full and open disclosure of all financial activity and information.
5. The City will strive to meet the requirements of the GFOA awards program for financial reporting.

## **IV. Minimum Fund Balance and Reserves**

1. The City will maintain a minimum unreserved, undesignated fund balance as established by City Council Policy 220-03 (General Fund Reserves – Fiscal Health Plan).
2. The City will maintain a minimum unreserved, undesignated fund balance in the sewer enterprise fund as established by City Council Policy 220-04 (Sewer Service Revenue Fund Reserve).

## **V. Revenue Management**

1. The City will endeavor to maintain a diversified and stable revenue base in order to minimize the impact to programs from short-term fluctuations in any one source of revenue.

2. Revenue projections will be maintained for the current year and four future fiscal years, and estimates will be based on a conservative, analytical, and objective process.
3. One-time and non-sustainable revenues will be excluded as a source to fund ongoing programs, debt service, or other long-term obligations.
4. In order to maintain flexibility, except as required by law or funding source, the City will avoid earmarking any restricted revenues for specific purpose or program.
5. All available funding from federal and state sources will be pursued to finance appropriate programs, services and capital improvement projects, including those mandated by statute.
6. Fees will be reviewed and updated regularly to ensure that program costs continue to be recovered and that the fees reflect changes in levels of service delivery.
7. The City will make conscious decisions about cost recovery and/or general tax subsidy of those services that benefit only portions of the tax-paying public. See City Council Policy 159-03 (Citywide Cost Recovery Policy).
8. A comprehensive analysis of City costs and fees should be made every 5 to 10 years.
9. The City will recover the cost of new facilities and infrastructure necessitated by new development consistent with State law and the City's Growth Management Program. Development Impact Fees will be closely monitored and updated to ensure that they are maintained at a level adequate to recover costs. See Chula Vista Municipal Code (CVMC) Chapter 19.09 (Growth Management Ordinance).
10. When considering new development alternatives, the City will attempt to determine the fiscal impact of proposed projects, annexations, etc. to ensure that mechanisms are put in place to provide funding for any projected negative impacts on City operations. See CVMC Chapter 19.09 (Growth Management Ordinance).

## **VI. Fiscal Constraints and Expenditure Management**

1. Budgetary control will be exercised at the Department/Category level, meaning that each department is authorized to spend up to the total amount appropriated for that department within the expenditure categories of Personnel Services, Supplies & Services, Other Charges, Utilities, and Capital. Transfers and appropriations between expenditure categories of up to \$15,000 may be approved by the City Manager. Transfer of appropriations between expenditure categories in excess of \$15,000, or between departments, require City Council approval. See City Charter § 401(b) and City Council Policy 220-02 (Financial Reporting and Transfer Authority).
2. Appropriations, other than for capital projects, remaining unspent at the end of any fiscal year will be cancelled and returned to Available Fund Balance with the exception of any appropriations encumbered as a result of a valid purchase order as approved for a specific project or purpose by the City Council or the City Manager. Appropriations for capital projects will necessarily be carried over from year to year until the project is deemed completed. See City Charter § 1005 (Budget Appropriations).
3. The City will utilize a competitive procurement process as set forth in a purchasing policy. See City Charter § 1011 (Competitive Bidding).
4. The City will continue to search for viable opportunities to privatize or outsource services, where appropriate.

5. The City will track expenditures to evaluate trends and identify potential problems.
6. Acquisition of real property or facilities shall be tied to a specific objective, with adequate funds identified and taking into account long-term fiscal and policy impacts.
7. All agenda staff reports shall include an analysis of current year and ongoing fiscal impacts.
8. All retirement systems should be financed in an actuarially sound manner in accordance with state law to achieve the goal of systematically funding future liabilities.

## **VII. Enterprise Funds**

1. User fees and charges will fully cover direct and indirect costs, including operations, capital outlay, long-term maintenance and debt service.
2. Enterprise funds will not be subsidized by the General Fund without explicit action by the Council.
3. Costs of general government services will be allocated to the enterprise funds based on an approved methodology.

## **VIII. Internal Service Funds**

1. The City will establish and maintain equipment replacement and facility maintenance funds as deemed necessary to ensure that monies are set aside and available to fund ongoing replacement needs.
2. Rates shall be established to recover the replacement cost of each piece of equipment at the end of its useful life.
3. Facilities will be amortized to cover ongoing maintenance and cyclical repairs and, to the extent possible, the replacement or expansion of major structures.

## **IX. Debt Management – See Council Policy 220-05 (City Debt Policy)**

1. The City will consider the use of debt financing only for one-time capital improvement projects when the project's useful life will exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. The only exception to this limitation is the issuance of short-term instruments, such as tax and revenue anticipation notes, which will only be considered in order to meet legitimate cash flow needs occurring within the fiscal year.
2. Debt financing is not appropriate for any recurring purpose, such as operating and maintenance expenditures.
3. The City will evaluate pay-as-you-go versus long-term financing in funding capital improvements.
4. The City will strive to maintain a high reliance on pay-as-you-go financing. This may be accomplished through inter-fund loans to reduce borrowing costs or provide for shorter term loans. When interest is charged on internal loans, it is done so at the same rate the City earns from its pooled investments.
5. The City will attempt to limit the total amount of annual debt service payments guaranteed by the General Fund to no more than ten percent (10%) of estimated General Fund revenues.
6. The City will consider requests from developers for the use of debt financing secured by property based assessments or special taxes in order to provide for necessary infrastructure

for new development only under strict guidelines adopted by Council, which may include minimum value-to-lien ratios and maximum tax burdens. See Community Facility District Ordinance.

7. The City will use financing mechanisms that appropriately spread the cost of facilities and services to current and future benefitting residents.
8. The City will strive to minimize borrowing costs by:
  - A. Seeking the highest credit rating possible.
  - B. Procuring credit enhancement, such as letters of credit or insurance, when cost effective.
  - C. Maintaining good communications with credit rating agencies regarding the City's fiscal condition.
9. The City will diligently monitor its compliance with bond legal covenants, including adherence to continuing disclosure requirements and federal arbitrage regulations.

### **Procedures:**

Not applicable.

### **Forms:**

Not applicable.

### **Government Code References:**

1. City Charter § 401(b): Financial Reporting
2. City Charter § 1005: Budget Appropriations
3. City Charter § 1011: Competitive Bidding
4. City Charter § 1017: Independent Audit
5. [Chula Vista Municipal Code Chapter 19.09: Growth Management](#)
6. [City Council Policy 159-03: Citywide Cost Recovery Policy](#)
7. City Council Policy 220-02: Transfer Authority
8. City Council Policy 220-03: General Fund Reserves – Fiscal Health Plan
9. City Council Policy 220-04: Sewer Service Revenue Fund Reserve
10. City Council Policy 220-05: City Debt Policy

### **Policy History:**

1. Issued 03/01/2015