

City of Sebastopol  
**GENERAL FINANCIAL POLICIES**

City Council Policy #69

Adopted August 7, 2001

As Amended by the City Council at their meeting of June 1, 2010 (approved by Minute Order #2010-095)

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The following Financial Policies are established to see that the City's finances are managed in a manner which will (1) continue to provide for the delivery of quality of services, (2) maintain and enhance service delivery as the community grows in accordance with the General Plan, (3) guarantee a balanced budget annually assuring that the City is always living within our means, and (4) establish reserves necessary to meet known and unknown future obligations. To achieve these goals the following Financial Policies are adopted which include General Policies, Revenue Policies, Cost of Services Policies, Reserve Policies, Expenditure and Budgeting Policies, Debt Policies and Capital Improvement Policies.

**A. General Policies:**

- The City will manage its financial assets in a sound and prudent manner.
- The City will maintain sound financial practices in accordance with State law, and direct its financial resources toward meeting the City's long-term goals.
- The City will maintain and further develop programs to assure its long-term ability to pay all the costs necessary to provide the level and quality of service required by its citizens.
- The City will maintain accounting systems in conformance with generally accepted accounting principles.
- The City will establish and maintain investment policies in accordance with State laws that stress safety and liquidity over yield.
- The City Council will not approve any non-budgeted non-emergency discretionary general fund expenditures without identifying corresponding general fund expenditure reductions or offsetting additional revenues. The City Council may waive this policy if they deem the expenditure to be of significant public benefit or when the City's reserve goals, as stated within these policies, have been attained.

**B. Revenue Policies:**

- The City will strive to maintain a diversified and stable revenue base that is not overly dependent on any land use, major taxpayer, revenue type, restricted revenue, inelastic revenue, or external revenue.
- The City will aggressively pursue revenue collection and auditing to assure that monies due the City are accurately received in a timely manner.
- The City will seek Federal and State grants to provide for recognized needs at an acceptable cost.
- The City will seek reimbursements for State mandated costs whenever possible.

- The City will investigate potential new revenue sources, particularly those which will not add to the tax burden of residents or local businesses.
- The City will work proactively with the League of California Cities and local communities to monitor legislation that may impact the City financially.
- The City will avoid targeting revenues for specific purposes whenever possible.
- The City will review user fees and charges and attempt to set them as close as possible to the cost of providing services, except as provided by the City Council's specific direction.
- The City will impose user fees when appropriate.
- The City will adopt user fees with appropriate levels of cost recovery.
- The fees and charges will be set at a level that fully supports the total direct and indirect cost of the activity, including administrative overhead and depreciation.
- The City will prepare quarterly financial reports of actual revenue received, for review by the City Council, to provide information on the status of the City's financial condition.
- The City will maintain and further develop methods to track major revenue sources and evaluate financial trends.

**C. Cost of Services Policies:**

- The City will recover the costs of new facilities and infrastructure necessitated by development, consistent with State law.
- The City will require large developments to prepare a fiscal analysis which measures direct and indirect costs and benefits to the City.

**D. Reserve Policies**

- The City will establish, dedicate and maintain reserves annually to meet known and estimated future obligations.
- The City will establish Specific Reserve Accounts which include but are not limited to designated reserves for the following:

- **Reserves for Accrued Liabilities:**

- Totally funded workers compensation reserve to provide for deductible costs.
- Funding for 75% confidence level for estimated costs of retirees medical premium liability.
- Reserve for sick leave and vacation liability equal to two-year average.

- **Reserves for Replacement of Facilities and Infrastructure:**

- Depreciation and replacement of vehicles and major equipment reserve.

- Capital maintenance and renovations of buildings, parks, and landscaping.
- Reserve for street capital maintenance.
- Reserves for Cash Flow Purposes:
- Reserve for Economic Uncertainties equal to at least 15% of General Fund Reserves with an eventual goal of 20% of General Fund Revenues.
- Liability Insurance reserve to provide for deductible costs and self insured retention.
- Reserve for litigation and legal defense costs.
- The City will not use reserves to fund operational expenses except when necessary for short term operational and organizational change.

**E. Expenditure and Budgeting Policies:**

- The operating budget will be prepared to fund current year expenditures with current year revenue. However, surplus fund balances may be used to increase reserves, fund Capital Improvement Projects or be carried forward to fund future years' operating budgets when necessary to stabilize services and fund capital outlay.
- The City will deliver service in the most effective manner, including utilizing the services of volunteers in areas where it is economically viable and operationally practical.
- The budget will fully account for and apportion all costs, fees, and General Fund transfers associated with the Enterprise Funds.
- All budget transfers require the approval of the City Manager or his designee.
- Budget transfers required to hire additional permanent personnel or capital expenditures in excess of \$10,000 require City Council's approval.
- The City will periodically update replacement and maintenance financing plan, and incorporate them into the Budget.

**F. Debt Policies:**

- The City will limit the use of debt so as not to place a burden on the fiscal resources of the City and its taxpayers.
- The City will limit long-term borrowing to capital improvements or projects that cannot be financed from current revenues.
- When capital projects are financed, the City will amortize the debt within a period not to exceed the expected useful life of the project.
- Except for extraordinary circumstances, the City will limit the debt ratio (debt guaranteed by the General Fund) to 10%. The debt ratio is calculated by the relationship between the debt and the General Fund revenue.

- Whenever possible, the City will investigate the use of special assessment, revenue or other self-supporting bonds to limit the General Fund obligation for debt service payments.
- The City will not use long-term debt for current operations.
- The City will not use short-term borrowing to support routine operations, provided however, that it may be used to meet temporary cash flow needs.
- The City will maintain strong communications with bond rating agencies about the City's financial condition and will follow a policy of full disclosure on financial reports and bond prospectus.
- The City will strive to maintain or improve the City's bond rating.
- The City will utilize inter-fund loans when possible to reduce the cost of financing capital improvements.