FINANCIAL AND BUDGETARY POLICY

Budget Policies:
-The adopted budget shall serve as the annual financial plan for the City. This financial plan shall include the goals and objectives set by the City Council and the level of services determined by the City Council.

-A balanced budget will be adopted annually, whereby operating expenditures shall not exceed operating revenues.

- Performance and workload measures, which reflect the effectiveness, efficiency or workload of departmental operations, will be included in the annual budget.

Revenue & Expenditure Policies:
- The development and maintenance of diversified and reliable revenue streams will be the primary revenue policy of the City. The City will focus its efforts to optimize existing revenue sources while periodically reviewing potential new revenue sources.

- Revenues and expenditures will be forecast for the upcoming budget year and the four subsequent years.

- Revenues and expenditures will be estimated conservatively using information provided by State and other governmental agencies, trending of historical information and other relevant information.

- Fees and charges for services will be evaluated and, if necessary, adjusted annually. The City's objective in setting fees and charges for services is to achieve a reasonable level of cost recovery for services that are not provided to, or do not benefit the community as a whole.

- A good internal control structure assuring that only properly authorized expenditures are made will be maintained.

- Expenditures will be controlled at the fund and department level and will not exceed appropriations without City Council authorization. Appropriations lapse at the end of the fiscal year to the extent that they have not been expended or encumbered.

- Obligations of the City will be recognized when incurred. Encumbrances will be used for outstanding commitments. Encumbrances outstanding at year-end will be carried over to the next fiscal year and are automatically reappropriated for inclusion in the next fiscal year's budget.

Reserve Policies:
- The General Fund Contingency Reserve, with a policy level to be equal to approximately 5 percent of the general operating budget, will be used for City Council approved expenditures not appropriated during the annual budget process and/or to cover unanticipated revenue shortfalls.

FINANCIAL AND BUDGETARY POLICY
(Continued)

- The General Fund Emergency Reserve, with a policy level to be equal to approximately 10 percent of the general fund operating budget, will be used only in situations of extreme physical or financial emergency and with the approval of the City Council.

- The Revenue Stabilization Reserve shall be established to generate revenue from investment earnings and provide funds for inter-fund loans and advances.

- The Budget Transition Reserve shall be established to strategically position the City to adjust to lower revenues during economically challenging times.

- The Property Management Reserve shall be established to provide a source of funds for obligations which could arise from the City's leasing of property in the North Bayshore Area, including legal, environmental testing or other costs normally incurred by a lessor.

- The Capital Improvement Projects Reserve, with a policy level of a minimum of $5 million, will be used for the funding of capital improvement projects authorized by the City Council. To the extent possible, General Operating Fund carryovers remaining from the end of the fiscal year, not designated for other reserve purposes, may be applied to this Reserve.

- The Strategic Property Acquisition Reserve shall be established for the purpose of setting aside specific funds to be used for the acquisition of strategic property(ies).

- The Compensated Absences Reserve shall fund the City's obligation for employees' accrued vacation and sick leave.

- The Equipment Replacement Reserve shall be maintained for the replacement of capital equipment.

- The Workers' Compensation Reserve shall be maintained at a level deemed adequate to meet projected liabilities as determined by an actuarial evaluation to be conducted at least once every three years.

- The Liability Self-Insurance Reserve shall be maintained at a minimum level of $2 million plus an amount to fund incurred claims.

- The Unemployment Self-Insurance Reserve and the Employee Benefits Plan Reserve will be reviewed annually and maintained at a level adequate to meet estimated unemployment and employee benefit liabilities, respectively.

- The Employee Benefits Plan Reserve will be reviewed annually and maintained at a level adequate to meet estimated benefit liabilities.

FINANCIAL AND BUDGETARY POLICY
(Continued)

- The Retirees' Health Plan Reserve will be reviewed annually with a funding goal adequate to meet projected liabilities as determined by an actuarial evaluation to be conducted periodically.

- The Water Fund Reserve shall be maintained at a minimum of the following:
    1) 10 percent of operating budget for emergency
    2) 15 percent of operating budget for contingency and rate stabilization
    3) $2 million for capital improvements

- The Wastewater Fund Reserve shall be maintained at a minimum of the following:
    1) 10 percent of operating budget for emergency
    2) 15 percent of operating budget for contingency and rate stabilization
    3) $1 million for capital improvements

- The Solid Waste Fund Reserve shall be maintained at a minimum of the following:
    1) 10 percent of operating budget for emergency
    2) 15 percent of operating budget for contingency and rate stabilization

Capital Improvement Policies:

- A five-year comprehensive Capital Improvement Plan (CIP), identifying proposed major construction projects, capital equipment outlays, land acquisition and other capital improvement expenditures, and providing an analysis of the estimated funding available and necessary to fund these projects, shall be prepared each year and presented to the City Council for approval.

- The plan shall identify all proposed projects to be initiated during the five-year period.

- The first year of the five-year plan shall be appropriated annually. The appropriations for each project are ongoing until project completion, project cancellation or amendment.

- The adopted capital improvement budget shall only include those projects which can reasonably be accomplished or substantially started within the fiscal year.

- Recurring annual projects shall be closed out at the end of the fiscal year or as soon as all related expenditures have been paid.

- Capital projects will be reviewed on an annual basis for amendments or potential closure/cancellation.

- A list of unscheduled projects (projects not included in the five-year period) will be identified in the five-year plan as an indication of potential future projects.

- Future potential ongoing operating costs associated with a project will be identified with the project in the five-year plan.

FINANCIAL AND BUDGETARY POLICY
(Continued)

Cash Management and Investment Policies:

- The City will follow modern cash management practices that require active revenue oversight, prompt collection, deposit and investment of all funds and cash flow management which maximizes the amount of invested cash balanced with the timely payment of obligations.

- The City will invest all funds in accordance with the Investment policy based on the following criteria:

1) Safety of investment
2) Maintenance of sufficient liquidity to meet cash flow needs
3) Attainment of a total rate of return consistent with the requirements of the City's Investment Policy

- The City shall conduct all of its investment activities in accordance with the California Government Code Section 53600 and the City's investment policy.

- The City's investment policy shall be updated as necessary and approved by the City Council on an annual basis. A complete report on the City's investment portfolio shall be presented to the City Council on a regular basis.

- A cash flow analysis shall be prepared on a monthly basis in order to estimate the amount of funds available for investment.

Accounting Policies:

- A financial accounting system adequate to provide management information and meet reporting requirements shall be maintained.

- A system of effective internal controls will be maintained that assures only properly authorized expenditures, recordings of financial transactions and accounting entries are executed.

- The City's financial records will be audited annually by an independent accounting firm as required by the City Charter.

- A Comprehensive Annual Financial Report (CAFR) shall be prepared each year within six months of the close of the previous fiscal year.

- The CAFR shall be prepared in accordance with generally accepted accounting principles applicable to local governments.

FINANCIAL AND BUDGETARY POLICY
(Continued)

Debt Management Policies:

- Long-term borrowing will be restricted to the funding of capital improvement projects and equipment. The use of long-term borrowing for ongoing operations shall be avoided.

- Debt obligations will be met in a timely and efficient manner.

- The term of the debt shall not exceed the expected useful life of the capital improvement project or equipment.

- The City will comply with all debt covenants.

- The City will not exceed its legal debt margin limit of 15 percent of assessed value of property within the City limits.

- Refunding techniques will be used where appropriate to allow for the restructuring of its current outstanding debt to remove or change restrictive covenants, and/or to reduce annual debt service in an amount sufficient to justify the costs of the refunding/reissuance.

Risk Management Policies:

-The City will maintain an appropriate level of funding or insurance coverage for exposure to risks of financial loss through self-insurance, partial self-insurance, commercial insurance, or pooled insurance, whichever form is the most cost effective in the long term.

- City property shall be appropriately insured or self-insured to cover the City's losses through theft, destruction, fire and other insurable perils.

- All liability-type losses and claims that occur with predictable frequency and which will not have a significant adverse impact on the City's financial position shall be self-insured to an appropriate level. The City shall be insured or self-insured for unemployment insurance and workers' compensation insurance.

- An annual survey shall be made of all insurance and self-insurance to monitor and compare costs.