

# CITY OF ORANGE

## FINANCIAL MANAGEMENT POLICIES

### I. Purpose and Objectives

The City's Financial Management Policies (FMPs) purpose and objective is ~~ensuring to ensure~~ its long-term fiscal stability and establishing controls for sound decision making, for the present and future.

This set of policies is intended to provide a framework to manage the City's finances in a manner that will support a high level of public safety; maintain the quality of life; and provide excellent service for our residents and business community while maintaining a balanced budget with a healthy reserve to meet known and unknown future obligations.

These FMPs are essential to the fiscal health and contingency plans of the City. They will be reviewed annually during the budget process and, if necessary, recommended changes will be presented to the City Council for consideration at budget adoption.

### II. Fiscal Sustainability

The City is committed to fiscal sustainability through its management of expenditures and stewardship of revenue growth through economic development and exploration of other revenue enhancing opportunities.

The City is also committed to maintaining a long-term view of financial planning that anticipates and proactively ~~mitigatemitigates~~ risks to preserve public safety, maintain the quality of life of the community, and provide excellence services to residents and businesses, as identified and prioritized through community input.

Fiscal sustainability will be accomplished by these guiding principles:

- a. **Informed decision-making.** City staff will identify and evaluate immediate and long-term economic, social, and environmental impacts of challenges, and present them to the City Council for discussion and consideration.
- b. **Transparency.** The City will conduct all business with transparency, pursuant to applicable laws and regulations. The City will continue to improve transparency and make financial information available in an understandable format for the community.
- c. **Managing long-term liabilities.** The City will continue to monitor long-term financial liabilities, including unfunded pension obligations, and commits to taking actions to manage these obligations and ensure transparency to the public.

- d. **Shared responsibility.** The City recognizes a shared responsibility between the employee and employer. The City is committed to appropriately fund employee compensation to attract and retain employees while maintaining a long-term sustainable and balanced budget.
- e. **Seeking efficiency and effectiveness.** Staff is committed to continuously ~~explore~~exploring ways to operate more efficiently while providing a quality service.

### III. Definition

- a. *Fiscal year* – each fiscal year begins on the first day of July and ends on the 30<sup>th</sup> day of June.
- b. *Recurring revenues* – revenues that are reasonably expected to continue from year-to-year, with ~~some~~high degree of predictability.
- c. *One-time revenues* – revenues that are one-time in nature or unpredictable.
- d. *Recurring expenditures* – expenditures that are reasonably expected to be funded every year to maintain the current level of City services.
- e. *One-time expenditures* – expenditures that are unpredictable and are not critical to maintain the current level of services.
- f. *Surplus* - when actual revenue exceed actual expenditure, including transfers.
- g. *Catastrophic reserve* – a required, non-discretionary, reserve that the City must maintain as a requirement for the Pension Obligation Bond (POB).
- h. *Restricted reserve* – a portion of the fund balance that is set aside for emergencies, economic uncertainty, and fiscal distress.
- i. *Operating surplus* – the excess of total revenues minus the total expenditures within a fiscal year.
- j. *Unrestricted/excess reserve* – a portion of the fund balance that is above the catastrophic and restricted reserve.

### IV. Policies

#### City-wide Budget Policy

- a. The City Council will adopt an annual budget for all funds, including the Redevelopment Successor Agency, before the start of the fiscal year, July 1st.
- b. At a minimum, the budget adoption package shall include the following:
  - i. A schedule of changes in fund balance for all funds.
  - ii. Statement of revenues for all funds.
  - iii. Statement of expenditures for all funds.
  - iv. Five-year Capital Improvement Plan.
- c. A copy of the budget shall be certified by the City Clerk as adopted by the City Council and filed as a public record in the office of the City Clerk.

- d. The Council will annually adopt a resolution establishing the City's appropriations limit (Gann Limit), calculated in accordance with Article XIII-B of the Constitution of the State of California.
- e. A Financial Model ~~should~~shall be reviewed, analyzed, updated, and presented at a City Council meeting as part of the annual City budget process.

#### General Fund Budget Policy

- a. The City will adopt a structurally balanced budget before the start of the fiscal year, July 1<sup>st</sup>.
  - i. Recurring revenues supporting recurring expenditures.
  - ii. One-time revenue cannot be used for ongoing ~~expenditures~~expenditure, i.e. salaries and benefits.
- b. The City will commit to ~~controlling-limiting~~ recurring non-personnel expenditure growth to ~~an-the average-average of the reported of the last ten years of the~~ Consumer Price Index for All Urban Consumers (CPI-U) rates for the Los Angeles-Long Beach-Anaheim area for the prior calendar year (the average CPI-U for 2024 calendar year is 3.3%)which is currently 2.0%.
  - i. Staff will present in detail the areas where the recurring expenditures growth exceeds the average CPI-U.
  - ii. City Council will approve or provide direction to staff for each area where the recurring expenditures exceeded the average CPI-U.
- c. The City will commit to balance the annual operating budget utilizing the following temporary budget balancing strategies\*, if necessary:
  - i. Freeze vacant positions for one year.
  - ii. Suspend all overnight training, unless it is grant funded, for one year.
  - iii. Suspend non-essential purchases of supplies, materials, equipment, vehicles, services and capital improvement projects, unless it is grant funded, for one year.

\*All temporary budget balancing strategies are subject to review annually.
- d. The City may borrow\* fund balances to balance the annual operating budget for unplanned/unforeseen events such as a recession or natural disaster.
  - a. Borrow available fund balance from Internal Service Funds and/or Capital Project Fund.
  - b. Borrow from Catastrophic Reserve.

\*A plan must be proposed and adopted by the City Council and must be paid back in two years.
- e. The City will commit to allocating operating surpluses to:
  - i. Replenish reserves, prioritizing the General Fund, Workers' Compensation, General Liability, and Employees Accrued Liability.

- i. Pay down long-term obligations such as pension obligations, other post-employment benefits, and bonds, and
- ii. Fund one-time expenses such as deferred maintenance.

#### Capital Projects Fund Budget Policy

- a. The City will approve a Five-year Capital Improvement Plan during the annual budget development.
  - ii. The budget for the Five-year Capital Improvement Plan is adopted annually.
- b. The City will review and update the Five-year Capital Improvement Plan annually, if needed.
- c. Future operating costs associated with ~~the~~ new capital projects s are to be disclosed.
- d. An Inventory of the City's physical assets, their condition, and remaining useful life will be maintained.
- e. The City will maintain all assets at a sufficient level to protect the City's capital investment.

#### Fund Balance Policy

- a. Fund balance is essentially the difference between the assets and liabilities reported for the governmental fund. The Government Accounting Standards Board Statement No. 54 (GASB 54) identifies five separate components of fund balance, each of which identifies the specific purposes for which amounts can be spent:
  - i. Non-spendable – amounts that are not in a spendable form such as inventory.
  - ii. Restricted – amounts constrained to specific purposes by their providers such as grantors and higher levels of government.
  - iii. Assigned – amounts identified by the City Council for a specific purpose.
  - iv. Committed – amounts that have been spent for specific purposes determined by the government's highest level of decision-making authority.
  - v. Unassigned – amounts that are not classified as non-spendable, restricted, assigned, and committed.

#### Reserve Policies

- a. General Fund
  - i. During budget development, the General Fund catastrophic reserve will be calculated based on the proposed or adopted budget, excluding transfers out, for the respective fiscal year.

ii. The General Fund catastrophic reserve true-up shall be calculated during year-end closing based on the actual expenditure for the year.

i-iii. Maintain reserves equivalent to 25% of annual General Fund expenditure, excluding transfers out, for the respective fiscal year.

1) The City will implement a phase-in approach to achieving the 25% reserve over the next five years. Staff will review the phase-in approach at year-end closing and will make recommendations to the City Council if needed.

- FY26 – 18%
- FY27 – 20%
- FY28 – 23%
- FY29 – 25%

ii-iv. At the end of the fiscal year, the Finance Department reports on the year-end financial results. Any unrestricted/unassigned fund balance in the General Fund, after providing funding necessary to achieve the minimum reserve levels required by this policy, shall be available for allocation as follows, subject to City Council approval:

- 1) Replenish reserves in Internal Service Funds and/or Capital Projects Fund.
- 2) One-time funding, non-recurring needs.
- 3) Loan repayment acceleration.

iii-v. Upon funding of the above, the decision of any remaining unrestricted/unassigned balances shall be recommended to the City Council by the City Manager or designee.

b. Internal Service Funds

i. Vehicle Replacement Fund - maintain reserves equivalent to 25% of the annual replacement value.

ii. Computer and Technology Replacement Fund - maintain reserves equivalent to 25 % of the annual replacement value.

iii. General Liability Fund – implement a phased in approach over the next 2 years to eliminate the negative fund balance. Once resolved, maintain a reserve amount equal to the Present Value of Projected Losses provided by the City’s Self-Insured Pool Administrator (CIPA). Staff will review the phase-in approach at year-end closing and will make recommendations to the City Council if needed.

- FY26 - Eliminate 50% of the negative fund balance
- FY27 - Eliminate remaining 50% negative fund balance

- FY28 - Fund 25% of the annual unpaid claims as of the end of the fiscal year or actuarial estimate provided by the City's Self-Insured Pool Administrator (CIPA), whichever is higher.
  - FY29 - Fund 50% of the annual unpaid claims as of the end of the fiscal year or actuarial estimate provided by the City's Self-Insured Pool Administrator (CIPA), whichever is higher.
  - FY30 - Fund 75% of the annual unpaid claims as of the end of the fiscal year or actuarial estimate provided by the City's Self-Insured Pool Administrator (CIPA), whichever is higher.
- iv. Workers' Compensation Fund - Implement a phased in approach over the next 5 years to eliminate the negative fund balance. Once resolved, maintain a reserve amount equal to the Present Value of Projected Losses provided by the City's Self-Insured Pool Administrator (CIPA). Staff will review the phase-in approach at year-end closing and will make recommendations to the City Council if needed.
- 1) FY 26-30 - Each year reduce the negative fund balance by at least 20% or more if the General Fund ends the years with excess surplus.
- v. Employee Accrued Liabilities Fund - Maintain a reserve equivalent to the compensated absences due within one-year as reported in the prior year Annual Comprehensive Financial Report (ACFR).
- c. Capital Projects Fund
- i. Maintain a reserve equivalent to 1-year of pavement management or 5% of the total budget for Infrastructure, whichever is higher.
- d. Enterprise Funds
- i. Water Fund - maintain reserves equivalent to 25% of the annual General Fund expenditure operating expenditure, excluding transfers out, for the respective fiscal year.
  - ii. Sanitation Fund - maintain reserves equivalent to 25% of the annual General Fund operating expenditure, excluding transfers out, for the respective fiscal year.

#### Budget Control City-Wide

- a. Staff shall provide the City Council with a status report on the budget, as it compares to the adopted budget, including any recommendation and estimated fund balances, at least once during the fiscal year.
  - i. Include estimated fund balances, and

a.ii. Provide details on any significant variances, +/- 10XX%, between budget to actual and/or same period last year for both revenue and expenditure.

- b. Budget revisions are approved as follows:
  - i. The City Manager and/or designee may approve transfers in the same fund to meet operational needs.
  - ii. ~~Interfund transfers, t~~Transfers between two different funds, and transfers between two different projects must be approved by the City Council.
- c. Expenditures must be within the appropriation limit or approved budget by the City Council.
- d. All non-personnel ~~expenditures~~expenditure must follow the City's Purchasing Municipal Code.
- e. No full-time equivalent positions may be added without authorization and budget appropriation by the City Council.
- f. All purchase order carryovers and/or continuing appropriations must be approved by the City Council.

Commented [MK1]: What is the difference?

#### Accounting Methodology City-wide

- a. The City uses fund accounting to demonstrate compliance with finance-related legal requirements.
- b. The City has an independent financial audit conducted each fiscal year.
- c. Government-wide funds, including General, Special Revenues and Capital Project Funds, are recorded on a modified accrual basis.
  - i. Revenues are recognized when they are measurable and available.
  - ii. Expenditures are recognized as soon as the liabilities are incurred, except for debt service and capital lease obligations, inventories, and prepaid items.
- d. Proprietary funds, which include enterprise and internal service funds, are budgeted on an accrual basis similar to private-sector businesses.

#### Pension Funding Policy

- a. A pension funding policy is a separate policy from the FMP and will be submitted annually to the City Council for review and adoption.
- b. This policy was last reviewed and adopted by the City Council per Resolution No. 11528, on February 13, 2024.

#### Investment Policy

- a. An investment policy is a separate policy from the FMP and will be submitted annually to the City Council for review and adoption.
- b. This policy was last reviewed and adopted by the City Council per Resolution No. 11563, on June 25, 2024.

#### Debt Issuance and Management Policy

~~a.~~ The Debt Issuance and Management Policy is a separate policy from the FMP. This policy was adopted by the City Council and updated per Resolution No. 11245, on June 9, 2020.

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