



Agenda Item

Investment Advisory Committee

Item #: 3.2.

4/23/2025

File #: 25-0213

TO: Chair and Members of the Investment Advisory Committee

FROM: Trang Nguyen, Finance Director

1. SUBJECT

Review of the Proposed Financial Management Policies

2. SUMMARY

Proposed Financial Management Policies to provide a framework for the annual budget and planning process.

3. RECOMMENDED ACTION

Provide input regarding the proposed Financial Management Policies.

4. DISCUSSION AND BACKGROUND

On March 11, 2025, staff presented the draft Financial Management Policies (FMPs) to the City Council. While the City has generally practiced many of the guidelines specified in the policies, it had not been formally outlined through a comprehensive document. In an effort to ensure transparency, consistency, and sustainability of the City's finances moving forward, staff compiled the draft Financial Management Policies (FMPs). These policies provide a framework for the annual budget and planning process, which include guardrails to ensure the financial decisions being proposed will support and maintain fiscal responsibility, accountability, and sustainability into the future. The purpose of the controls outlined in the policy is to establish consistent and sound financial decision-making that will carry forward year to year. These policies will also provide the public a comprehensive document that will serve as the roadmap for the annual budgetary process and a guideline for meeting fund balance reserves. The FMPs cover key elements of the City's finances, including the following:

- Budget Development
 - General Fund Budget
 - Capital Projects Fund Budget
- Fund Balance
- Reserves
- Budgetary Controls and Accounting Methodology
- Pension, Investment, and Debt

Also included in the FMPs are important definitions, principles, and changes that include:

- Structurally balanced budget
 - Recurring expenditure should not be more than recurring revenue
 - One-time revenue is not used for recurring expenditure
- Definition of reserves, components of fund balance, and reporting of fund balance
 - Non-spendable - amounts that are not in a spendable form such as inventory.
 - Restricted - amounts constrained to specific purposes by their providers such as grantors and higher levels of government.
 - Assigned - amounts identified by the City Council for a specific purpose.
 - Committed - amounts that have been spent for specific purposes determined by the government's highest level of decision-making authority.
 - Unassigned - amounts that are not classified as non-spendable, restricted, assigned, and committed.
- Changes to the reserve policy
 - General Fund - going from 16.6% back to 25% of the General Fund expenditure, excluding transfers.
 - Internal Service Funds - various levels depending on the fund. (See attachment A for more details).
 - Capital Projects Fund - going from 5-year annual average CIP or 50% of the single highest year to an equivalent of 1-year pavement management.
- Separating the reserve policy from the pension policy

Staff will incorporate feedback received from the meetings and present the final FMPs to the City Council for adoption at a future meeting. The FMPs will be reviewed annually during budget adoption.

5. ATTACHMENTS

- City of Orange Financial Management Policies