**RESOLUTION 15-10**

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF FAIRFAX ADOPTING OVERALL FINANCIAL POLICIES**

**WHEREAS**, the Town adopted a comprehensive set of financial policies to serve as a guideline for operational and strategic decision making related to financial matters; and

**WHEREAS**, the policies should be reviewed annually to ensure that they remain current; and

**WHEREAS**, the current financial policies were adopted March 2, 2011; and

**WHEREAS**, the Finance Committee has reviewed the current financial policies and made revisions,

**NOW, THEREFORE, BE IT RESOLVED** by the Town Council of the Town of Fairfax does hereby adopt the policies attached hereto as Exhibit "A," and incorporated herein by reference; and

**BE IT FURTHER RESOLVED** that this policy will be included as part of the Town's annual Adopted Budget; and

**BE IT FURTHER RESOLVED** that the Town's comprehensive financial policies shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

The foregoing Resolution was duly passed and adopted at a meeting of the Town Council of the Town of Fairfax held in said Town on the 6th day of May 2015 by the following vote:

AYES: COLER, GODDARD, LACQUES, REED, WEINSOFF
NOES: None
ABSENT: None

BARBARA COLER, Mayor

Attest:

Michele Gardner, Town Clerk

# FINANCIAL POLICIES

## Town of Fairfax Financial Policies
### Adopted by Resolution May 6, 2015

---

**PURPOSE:**

To establish a comprehensive set of financial policies for the Town that will serve as a guideline for operational and strategic decision making related to financial matters. These are the goals that the Town strives for, in an efforts to promote the fiscal sustainability of the Town; the adoption of these policies do not impose a duty.

**STATEMENT OF POLICY:**

The following financial policies are intended to establish a comprehensive set of guidelines for use by the Town Council and Town staff on decision-making that has a fiscal impact. The goal is to maintain the Town's financial stability in order to be able to continually adapt to local and regional economic changes. Such policies will allow the Town to maintain and enhance a sound fiscal condition. This policy should be implemented in conjunction with associated subsidiary policies, **i.e. Mission Driven Budgeting Policy, Purchasing Policy, Investment Policy, Grants Policy, etc.**

This financial policy will be reviewed annually to ensure that it remains current. The policy will be included as part of the Town's annual Adopted Budget. The Town's comprehensive financial policies shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

The following policies are presented:

1. Long Term Financial Planning
2. Operating Budget Policies
3. General Fund Reserve Policy
4. Financial Reporting Policies
5. Operational Management Policies
    a. User Fees & Charges
    b. Grant Management
    c. Revenue Collection
6. Financial Management Policies
7. Capital Improvement Project Policies
8. Debt Management Policies
9. Internal Service Funds
10. Outsourcing Policy



**EXHIBIT A**

# FINANCIAL POLICIES

## *1. LONG-TERM FINANCIAL PLANNING*

1. The Town shall strive to seek a balance in the overall revenue structure between more stable revenue sources (e.g. Property Tax and Utility Taxes) and economically sensitive revenue sources (e.g. Sales Tax and Transient Occupancy Tax). When new revenue sources are proposed, they should be designed to achieve a desirable balance.

2. The Town shall encourage the economic development of the community as a whole in order to provide stable and increasing revenue streams. It should be the Town's goal to not only attract new businesses but also to retain successful businesses in the Town. Objectives of the revenue strategy should also include: avoiding an overreliance on revenue from any one particular industry; Recruitment and retention efforts to ensure a balance of revenue sources: ensuring compatible uses; encouraging business synergies; and promoting the growth of amenities and ancillary services to support business districts and established industries.

3. The Town will strive to develop and maintain methods for the evaluation of future development and related fiscal impacts on the Town budget.

4. The Town will strive to develop and implement a five-year infrastructure, facilities and equipment maintenance/replacement plan, which shall be updated annually and included in the Town's **Comprehensive Financial Plan**. From this plan a maintenance and replacement schedule will be developed and followed.

5. The Town will strive to develop and implement a financial plan to address its funding needs for issues like deferred maintenance and unfunded liabilities, which will be included in the Town's **Comprehensive Financial Plan**.

## *2.* OPERATING BUDGET POLICIES

1. The Town Manager shall prepare and present a proposed budget to the Town Council within all statutorily prescribed deadlines. The Council will conduct workshops and a public hearing prior to the adoption of the budget no later than the July meeting.

2. A Budget Resolution will be adopted by the Town Council annually, which describes the budget amendment process and also specifies budget amendment authority.

3. All departments will participate in the responsibility of meeting the Town's financial policy goals and ensure the Town's long-term financial health. Budget control is maintained at the department level.

4. It is the Town's policy to adopt a balanced budget where operating revenue is equal to, or exceeds, operating expenditures. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases and/or expenditure decreases.

5. The operating budget shall serve as the annual financial plan for the Town. It shall serve as the Town's management plan for implementing goals and objectives of the Town Council, Town Manager and departments. The budget shall provide staff the resources necessary to accomplish Town Council determined service levels.

6. During the annual budget development process, the existing base budget should be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.

7. The annual review process should include an assessment to determine if funds are available to operate and maintain proposed capital facilities and other public improvements. If funding is not available for operations and maintenance costs, where practicable, the Town will delay construction of new projects.

8. Any year-end operating surpluses will revert to un-appropriated balances for use in maintaining reserve levels set by policy and will be available for capital

projects and/or one-time General Fund expenditures upon approval of the Town Council.

9. Where practical, the Town's annual budget will include performance measures of workload, efficiency, and effectiveness.

10. The Town's **Comprehensive Financial Plan** (Plan) is a long-term picture of the Town's finances and will be updated annually as part of the annual budget development. The Plan shall include forecasted expenditures and revenues of at least five (5) years for each fund; however, a ten (10) year forecast is preferred. The update will include an analysis of any substantial discrepancies of previous projections.

**Revenues:**

1. The Town will estimate annual General Fund revenues using an objective, analytical process; specific assumptions will be documented and maintained. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies, and/or reliable economic forecasters when available.

2. Specific revenue sources will not be dedicated for specific purposes, unless required by law or Generally Accepted Accounting Principles (GAAP), and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA). All non-restricted revenues will be deposited in the General Fund and appropriated through the budget process.

3. On-going revenues will fund on-going expenditures and a diversified and stable revenue system will be developed and maintained to protect programs from short-term fluctuations in any single revenue source.

4. The Town shall prepare monthly financial reports which discuss revenue receipts compared to budget and a midyear budget report to update projections in light of actual receipts, and shall provide new projections, as appropriate.

**Appropriations:**

1. The Town shall, to the extent possible, pay for current year expenditures with current year revenues. Where authorized activities/equipment remain

incomplete and/or un-purchased, revenues and/or fund balance may be carried forward at the Town Manager's direction to the next fiscal year to support such an activity/purchase.

2. The Town shall avoid budgetary procedures which rely on financial strategies that defer payment of current operating expenses to future years.

3. Department Heads are responsible for ensuring department expenditures stay within the department's budgeted appropriation. Approval from the Town Manager is required to move funds between personnel and operating expense sections of each department budget.

4. Any increase to the total departmental/fund appropriation will require prior approval by the Town Council. The staff report shall identify the funding sources and budget amendment required for the specific action.

5. The Town shall prepare monthly financial reports which shows actual expenditure receipts compared to budget and a midyear budget report to update projections in light of actual receipts, and shall provide new projections, as appropriate.

## 3. *GENERAL FUND RESERVE POLICY*

1. It is a goal of the Town to maintain a general operating reserve of, at a minimum, 20% of projected General Fund operating expenditures for each fiscal year and an additional 5% for emergency situations (excluding debt service, fund transfers, and encumbered funds). These reserves are designed to be used in the event of a significant financial emergency. Should the General Fund reserve fall below 25%, the Town will implement measures to restore the reserve percentage to 25% in the following fiscal year.

2. The Town shall establish, at the beginning of each fiscal year, an "appropriated reserve" to provide funding for special projects/programs approved by Town Council after the annual budget is adopted, for unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in current service delivery costs. The amount of this reserve will be approved annually by the Town Council.

3. A portion of any uncommitted fund balance in excess of 25% of annual revenues resulting from the previous fiscal year's operations will strive to be committed to capital improvement projects or should be used to retire existing debt, fund future liabilities or potential legislative impacts, establish or replenish equipment replacement funds, and/or establish or replenish deferred maintenance funds.

4. The Town will strive not to use one-time funds to fund ongoing Town programs. Any onetime revenue receipt during the fiscal year should be recognized and recorded in a "non-recurring revenue source" category. One-time revenue windfalls include: sales of Town-owned real estate, CalPERS rebates, lump sum (net present value) savings from debt restructuring, litigation settlement, unexpected revenues, and other similar sources of revenue as designated by the Town Council. These one-time funds should be used to fund one-time projects and expenditures; however Council reserves the right to utilize these funds in an emergency.

5 The Town will strive to establish and maintain a designated reserve fund for any anticipated future expenses that will require a certain level of steady funding source, i.e. unfunded future retiree medical cost and pension cost. It is prudent to set aside these funding needs each year in order to maintain Town's financial stability.

## *4. FINANCIAL REPORTING POLICIES*

### Accounting Standards:

1. The Town's accounting and financial reporting systems shall be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA). The Town will make every attempt to implement all changes to governmental accounting practices at the earliest practicable time.

### Annual Audit:

1. An annual audit will be performed by an independent public accounting firm with an audit opinion to be included with the Town's published Comprehensive Annual Financial Report (CAFR).

2. The independent firm will be selected through a competitive bidding process at least once every five years. The contract will be for an initial period of three years with two additional one-year options at the Town Council's discretion. The Finance subcommittee and Town Manager will review the qualifications of prospective firms and make a recommendation to the Town Council. The audit contract, and any extensions, will be awarded by the Town Council.

## *5. OPERATIONAL MANAGEMENT POLICIES*

1. The Town shall endeavor to avoid committing to new spending for operating or capital improvement purposes until an analysis of all current and future cost implications relating to those programs and projects is completed.

2. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements.

3. Departmental requests for increases in staffing will be thoroughly analyzed; only those that meet adopted program initiatives and policy directives will be considered. To the extent feasible, personnel cost reductions will be achieved through attrition.

### a. User Fees and Charges:

1. All non-enterprise user fees and charges will strive to be examined or adjusted annually to determine the direct and indirect cost of service recovery rate. Where direct services to users can be measured, the Town shall consider use of appropriate fees, charges or assessments rather than general tax funds.

2. Except where the Town Council has determined there is a public benefit to subsidize the service with tax based revenue, the user fees and charges for specialized services shall be established at a level related to the cost of providing such service. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the Town Council following public review.

### b. Grant Management:

1. The Town will strive to actively pursue federal, state and other grant opportunities when deemed appropriate. Before accepting any grant, the Town shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.

2. The term of Grant funded positions should be clearly identified and presented to the Town Council for approval. It is mandatory to disclose if General Fund revenues will be needed to fund a position after the Grant expires.

3. Grant funding will be considered to leverage Town funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, Town resources may be substituted only after all program priorities and alternatives are considered.

4. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

**c. Revenue Collection Policy:**

1. The Town will pursue revenue collection and auditing to assure that monies due the Town are accurately received in a timely manner.

2. The Town will seek reimbursement from the appropriate agency for State and Federal mandated costs whenever possible.

3. The Town should centralize accounts receivable/collection activities within the Finance Dept. so that all receivables are handled consistently.

4. Accounts receivable management and diligent oversight of collections from all revenue sources are imperative. Sound financial management principles include the establishment of an allowance for doubtful accounts. Efforts should be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they should be written-off from the financial statements.

## *6. FINANCIAL MANAGEMENT POLICIES*

1. Staff shall keep Town Council apprised of financial opportunities available to the Town and shall develop appropriate recommendations.

2. All requests for Town Council action shall include an analysis of the immediate and future fiscal impact of such action. No appropriation for new or expanded programs or staffing levels shall be approved without identifying the amount and source of available funds.

3. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

**Cash Management Investment:**

1. Cash and investment programs will be maintained in accordance with California Government Code Section 53600 et seq. and the Town's adopted investment policy and will ensure that proper controls and safeguards are maintained.

2. Reports on the Town's investment portfolio and cash position will be developed and presented to the Town Council on a quarterly basis, in conformity with the California Government Code.

## *7. CAPITAL IMPROVEMENT PROJECT POLICIES*

1. A five-year Capital Improvement Plan will strive to be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which result in a capitalized asset and have a useful (depreciable) life of five years or more.

2. The capital improvement plan will identify, where applicable, current operating maintenance costs and funding streams available to repair and/or replace deteriorating infrastructure and to avoid significant unfunded liabilities.

3. The Town should develop and implement a post-implementation evaluation of its infrastructures condition on a specified periodic basis, estimating the remaining useful life, and projecting replacement costs.

4. The Town will strive to actively pursue outside funding sources for all Capital Improvement Projects. Outside funding sources, such as grants, shall be used to finance only those Capital Improvement Projects that are consistent with the five- year Capital Improvement Project and local governmental priorities, and whose operating and maintenance costs have been included in future operating budget forecasts.

5. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecasted, matched to available revenue sources, and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.

6. The Town must carefully seek and analyze the appropriate type of financing instrument appropriate for financing capital projects. Several options are available – general obligation debt, fee-supported debt, fund reserves, etc. All debt financing mechanisms shall be carefully considered and analyzed for fiscal benefit and cost effectiveness. Long-term borrowing shall be restricted to projects too large to be financed from current revenues (pay-as-you-go). Where possible, special assessment, revenue or other self-supporting bonds shall be used in lieu of general obligation bonds.

## *8. DEBT MANAGEMENT POLICIES*

**Issuance of Debt:**

1. The Town will not use long-term debt to pay for on-going operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.

2. New debt issues, and refinancing of existing debt, must be analyzed for compatibility within the Town's overall financial planning within the **Comprehensive Financial Plan.** The review shall include, but not be limited to, cash flow analysis and the maintenance of the Town's bond rating. Annual debt service shall not produce an adverse impact upon future operations.

3. Debt financing should not exceed the useful life of the infrastructure improvement with the average (weighted) bond maturities at or below twenty years.

4. A ratio of current assets to current liabilities of at least 2 to 1 will be maintained to ensure the Town's ability to pay short-term obligations (i.e. current assets/current liabilities ≥ 2).

**Credit Rating:**

1. The Town will seek to maintain and, if possible, improve its current bond rating(s) in order to minimize costs and preserve access to credit.

2. It is the Town's goal to maintain an AAA/Aaa credit rating from all three major rating agencies. The Town may pay the bond insurance which is considered as part of the rating, however, the rating agency does evaluate the structure of the bond to validate the bond rating. The factors that contribute to a high rating include the Town's financial management practices, low debt levels, budgetary and fiscal controls, and accountability. To support this policy, the Town will continue to maintain its position of full financial disclosure and proactive fiscal planning.

## *9. INTERNAL SERVICE FUNDS*

**Equipment Replacement Fund:**

1. The Town shall maintain a fund with a sufficient balance for replacement of vehicles, equipment (including technology and communication equipment).

2. Vehicle replacement will be accomplished through the use of an amortization methodology structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement of vehicles and other capital equipment (fleet, computers, phones, copiers, etc.). Replacement costs will be based upon equipment lifecycle financial analysis.

## ***10. OUTSOURCING POLICY***

The Town will consider outsourcing services if it cannot be provided by existing staff or it is deemed to be more cost effective. Staff will follow the Town's adopted administrative purchasing policy and environmental purchasing & practices policy.