I. Purpose, Overview and Scope of this Policy

This document establishes policies of overall financial management, budget development, and fiscal administration for the City of St. Helena. Included herein are statements and principles designed to guide the City in maintaining its financial stability and delivering high-quality services to the public.

Formally adopted financial policies assist elected officials and City staff in the development of fiscal management practices, save time, and provide structure for financial decisions, promote public confidence, enhance transparency, and provide continuity over time. These policies will be updated periodically, but are designed with a long-term perspective and provide the basic framework and road map for addressing a wide variety of financial and economic conditions that the City will encounter. A fiscal policy supports long-term planning and enhances the City’s effectiveness in implementing long-term strategies to deliver efficient public services.

This document provides a structured, central repository for a variety of fiscal policies which are organized into the following categories:

A. General Financial Principles
B. Annual Operating Budget Policy
C. Capital Improvement Program
D. Revenues
E. Expenditures
F. Cash Management
G. Debt Management
H. Fund Definitions
I. Fund Balance Classifications
J. Fund Balance Levels
K. Financial Reporting
L. Review and Update

II. Authority

Updates to this policy require City Council approval.
III. Policy

A. General Financial Principals

It is the overall policy of the City of St. Helena to build upon a sound conceptual framework to:

1. Manage its financial resources in a responsible and prudent manner.
2. Provide financial information in a relevant, thorough and timely manner, and in a format that effectively communicates financial status to the Council, citizens, and City employees.
3. Establish and maintain prudent fund balance levels.
5. Promote and implement a relevant and strong system of internal financial controls to manage significant risks and monitor the reliability and integrity of financial and operating reporting.
6. Promote constructive and proactive financial decision making that includes, and is responsive to, citizens input and guidance.
7. Integrate long-term operating and capital resources planning into the annual budget process.
8. Allow for uncertainties and maintain a posture of financial flexibility.
9. Develop programs in a manner that support the City's long-term ability to cover costs and provide the level and quality of service expected by its citizens.
10. Manage debt responsibly.
11. Establish and implement investment policies in accordance with City code and State law.

B. Annual Operating Budget Policy

1. Adoption of Annual Operating Budget
   a. Per Municipal Code 2.12.060.B.9, the City Manager supervises the preparation of a detailed, proposed municipal budget and submit the same to the Council on or before May 15th of each year, and to offer their recommendations as to such increases, decreases, cancellations, transfers, or changes in any of the items included in the proposed budget as in their judgment should be made before the adoption of the budget.
   b. An annual operating budget will be adopted by the City Council no later than June 30th of each fiscal year. The budget will include appropriations that provide expenditure authority to public officials responsible for operating their respective departments to fulfill obligations to provide public services as delegated by the City Council.
c. Funds may not be expended for a new fiscal year until the budget for that fiscal year has been adopted by City Council or special provisions have been adopted by the City Council.

d. Total projected expenditures shall not exceed total estimated revenues. Should this occur, City Council may approve a planned use of accumulated fund balances in prior years for inclusion in the budget.

e. The City should maintain a multi-year financial forecast (Long Range Financial Forecast) that is updated as part of the annual budget development process.

f. One-time revenue sources are not to be relied upon to fund on-going operations.

2. Controlling and Adjusting the Annual Budget

a. The City structures and controls its budget by use of the following funds:

- **General Fund** - is the primary operating fund of the City. It accounts for the receipt of property tax, general sales tax, transient occupancy tax, and other general revenues available to finance City operations. The General Fund accounts for all revenues and expenditures that do not fit the criteria to be accounted for in other funds with external restrictions imposed by their respective financing sources.

- **Special Funds** - account for resources externally restricted for use by their respective funding sources, such as grant programs financed by the State and Federal governments.

- **Enterprise Funds** - account for water and wastewater systems, and may be used for fee-based programs if the intention is to recoup almost all City costs through fees or other charges.

- **Internal Service Funds** - account for centralized service costs (such as vehicle services made available to all operating departments). Charges from the internal service funds appear as an expenditure in the user department, and as revenue in the central service department.

b. The City’s budget is controlled at the fund level by the City Council.

- The City Council, as representatives of the public, is the sole authority for creating or increasing expenditure appropriations within a fund. The City Council is also the exclusive authority for approving changes in revenue estimates with funds.

c. Department Directors will be held directly responsible and accountable for their budgets as originally adopted by the City Council or as thereafter revised in accordance with this policy. The level of expenditure control for departments is at the departmental level.
d. Departments that operate programs among different funds are limited to the appropriation levels within any one fund. This policy also describes the level of authority needed to amend the adopted budget.

3. Transfers and revisions to the adopted budget:
   a. The City Council approves:
      - All increases in appropriations within a fund.
      - All transfers of appropriations between funds.
      - All decreases in appropriations, with the exception that the City Manager may direct Department Directors to suspend expenditures pending Council consideration of decreases in appropriations needed to respond to fiscal emergency.
   b. The City Manager approves:
      - The City Manager may make budget transfers between departments or programs as long as those changes do not increase overall appropriations within any one given fund. Transfers between funds, overall increases in fund appropriations, and overall increases in project budgets can only be made through City Council action.
   c. Department Directors may authorize the transfer of appropriations within a department, except transfers: (1) that would purport an increase in the number of regular personnel, and (2) that would decrease appropriations for capital outlay.
   d. Finance Department:
      - The Finance Department is responsible for providing forms and instructions for requesting appropriation adjustments, and for analyzing and recommending adjustments to the City Manager. The Finance Department will record approved budgets and adjustments into the City’s financial system.
      - The Finance Department will ensure that the City’s Comprehensive Annual Financial Report (CAFR) includes a comparison of actual expenditures against the final budget, as amended and adjusted under the authorities of this policy.

4. Operating expenditure appropriations not spent during the fiscal year lapse at year-end, except for:
   a. Encumbrances or commitments, as in the form of finalized purchase orders made during the fiscal year that have not been completed at year-end.
   b. Appropriations for capital improvement projects and ongoing grants with a life-cycle beyond one year.

5. Governmental funds use the modified accrual basis of accounting while proprietary and fiduciary fund types are budgeted on a full accrual basis of
accounting. The CAFR presents City’s finances on a Generally Accepted Accounting Principles (GAAP) basis and the City’s budget is prepared in conformance with these standards.

6. The City’s budget must comply with the annual determination of the City’s appropriations limit (GANN Limit) calculated in accordance with Article XIB of the Constitution of the State of California and the City shall adopt an annual resolution to this effect.

C. Capital Improvement Program

1. The City will develop and maintain a five-year Capital Improvement Program (CIP) to be updated annually in conjunction with the operating budget. The CIP should reflect the current and changing needs of the community as well as enhance the community’s quality of life.

2. All projects within the CIP are to be tracked systematically and reports should clearly display budget-to-actual performance by project, fund category, and project status.

3. Capital improvements that specifically benefit a select group of users and/or are fee-for-service based are to be financed through user fees, service charges, special assessments and taxes, or development impact fees.

4. Capital improvements that specifically benefit a fee-for-service enterprise operation (such as Water/Wastewater) are to be financed through the service fees generated within that operation and fund. Such fees should be supported by periodic updates to the related utility master plan.

5. Transfers of resources to the CIP fund will be evaluated on an annual basis dependent upon the existence of available surplus dollars.

6. The City should strive to maximize the use of capital grants and State assistance in funding capital improvements before utilizing general revenue sources.

D. Revenues

1. The City will strive to maintain a diversified and stable revenue base to minimize the impact of economic fluctuation.

2. The City will seek out, apply for, and effectively administer Federal, State, and other grants that address the City’s current operating and capital priorities in accordance with P-FI-0007 – Grant Application and Management Policy.

3. The City will pursue revenue collection and auditing to assure that funds due to the City are accurately received in a timely manner.

4. The City will seek reimbursement for State mandated costs whenever possible.

5. The City will adopt user fees with appropriate levels of cost recovery.

6. User fee studies should be performed and updated every five years to ensure the proper balance of costs and service charges. The City should strive to cover the full cost of providing non-tax and discretionary fee-based service
operations except to the extent that City Council approves defined subsidy levels by program area.

7. Operating departments are to review public services to identify and determine those appropriate for fee collection. Recommendations for new fees are to be presented to the City Council for adoption to ensure fees reflect all direct and reasonable indirect costs of providing such services.

8. Enterprise operations will be self-supporting.

E. Expenditures

1. Expenditures are to be budgeted and controlled so as to not exceed estimated revenues plus the approved and planned use of fund balances accumulated in prior years.

2. The City will conduct a mid-year financial status review to determine if projected revenues and expenditures meet target levels. If an operating deficit is projected at year-end, the City should evaluate the need for immediate corrective and/or mitigating actions, including operating or capital expenditure reductions and/or activate the use of established contingency balances. The deferral of essential and scheduled operational expenditures into the following fiscal year or the use of short-term loans and transfers to balance the budget should be avoided.

3. The City implements a formal purchasing system, principles, and guidelines to ensure that expenditure levels are monitored throughout the course of any fiscal year.

F. Cash Management

1. Annually the City’s Investment Policy P-FI-0002 is reviewed and presented to City Council for adoption.

2. Investments for the City are reported at fair value (generally based on quoted market prices). The State Treasurer’s Investment Pool and California Asset Management Program (CAMP) operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

G. Debt Management

1. The City should plan the use of debt in a manner that sustains financial payments at manageable levels.

2. The City will seek to maintain a high credit rating through sound financial practices as a basis for minimizing borrowing costs.

3. The City will not issue long-term debt to fund current operations. Debt financing should only be used for long-term capital improvement projects with a useful life exceeding the term of the financing and for which the project
revenues or specific identified revenue sources are sufficient to service the long-term debt. Debt Financing can be used if the cost of financing is favorable as compared to the use of City investment holdings over the financing term.

4. The City will monitor all forms of debt annually in conjunction with the budget preparation process and report concerns and remedies, if necessary, to the City Council.

5. The City will diligently comply with and monitor compliance with all bond covenants.

6. The City will cause to be prepared and will timely post to the Electronic Municipal Market Access database (EMMA) all required annual continuing disclosures and, if needed, any material event notices.

7. The City will monitor all debt obligations for ongoing tax compliance and arbitrage reporting.

8. The City will not incur general obligation indebtedness for public improvements which exceed in aggregate 15% of the assessed value of all real and personal property of the City as specified in the California Government Code Section 43605.

9. The City will maintain a minimum net revenue coverage ratio for the Water and Wastewater funds (all annual revenues remaining after operating and maintenance expenses, net of pass-through grants, to annual debt service requirements net of excess appropriations required for variable rate debt) as required by each funding source.

H. Fund Definitions

1. Governmental Fund Type Definitions

   Governmental fund types include the General Fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. The Governmental Accounting Standards Board (GASB) has clarified the definitions of these funds as follows:

   a. General Fund – The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund.

   b. Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specific purpose of the fund.
Governments should discontinue reporting a special revenue fund, and instead report the fund’s remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

c. Capital Projects Funds – Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

d. Debt Service Funds – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, even if it is being accumulated for further years’ payments. Debt service funds should be used to report resources if legally mandated.

e. Permanent Funds – Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

2. Proprietary Fund Type Definitions
Proprietary fund types include enterprise funds and internal service funds. GASB has clarified the definitions of these funds as follows:

a. Enterprise Funds – GAAP provide that enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Furthermore, a given activity must be accounted for in an enterprise fund if it meets any of the following criteria (in the context of its principal revenue sources):
   a. There is outstanding debt that is backed solely by fees and charges;
   b. Laws or regulations require that fees and charges be set to recover costs, including capital costs (depreciation or debt service); or
   c. There is a pricing policy that fees and charges be set to recover costs, including capital costs (depreciation or debt service).

b. Internal Service Funds – Internal service funds are used to report any activity that provides goods or services to other funds, departments, or
agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

3. Fiduciary Fund Type Definitions
   Generally Accepted Accounting Principles (GAAP) require fiduciary funds to report assets held in trustee or agency capacity for others cannot be used to support the government’s own programs. Fiduciary funds, as reported in GAAP financial statements, never should include resources that can be used to support the government’s own programs. Within the fiduciary funds category, funds that involve a trust agreement that affects the degree of management involvement and the length of time that the resources are held are distinguished from funds that involve only the receipt, temporary investment and remittance of fiduciary resources. Fiduciary fund types include pension, investment trust funds, private-purpose trust funds, and agency funds.
   c. Pension Funds – Used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans, or other employee benefit plans.
   d. Investment Trust Funds – Used to report the external portion of investment pools reported by the sponsoring government.
   e. Private-purpose Trust Funds – Used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.
   f. Agency Funds – Used to report resources held by the reporting government in a purely custodial capacity.

I. Fund Balance Classifications
   1. Governmental Fund Balances
      a. Fund balance is defined as the difference between assets and liabilities and in Governmental funds is reported as fund balance. GASB No. 54 classified fund balances into the following categories:
         • Nonspendable: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale.
• Restricted: The restricted portion of fund balance is restricted to specific purposes. Examples are Gas Tax revenues and grant proceeds.
• Committed: The committed portion of fund balance is constrained by the limitations imposed through formal City Council action. Only formal City Council action can remove or modify a previously committed account.
• Assigned: The assigned portion of fund balance is established for intended use by either the City Council or its designee, such as the City Manager. No formal City Council action is needed to remove the intended use. GAAP required reserves, such as the Other Post-Employment Benefits (OPEB) reserve, belong to this category.
• Unassigned: The unassigned portion of fund balance is that remaining after the non-spendable, the restricted, the committed, and the assigned fund balances are identified and recorded.

The City of St. Helena will use GASB’s definitions of fund balance for the annual CAFR and for all other financial reporting. For all financial planning purposes, the term Net Position or Fund Balance will be used and will include any portion of the fund balance that is available for appropriation.

Preferred order of use of governmental fund balances:

The City shall strive to use the most restricted fund balances prior to utilizing those that are less restricted. The following order of use reflects this guideline:

a. Non-spendable (if funds become spendable)
b. Restricted
c. Committed
d. Assigned
e. Unassigned

2. Proprietary and Fiduciary Fund Balances (Net Position)
a. Fund balance is defined as the difference between assets and liabilities and in Proprietary and Fiduciary fund is reported as net position. GASB No. 63 classified reporting of net position into the following categories:

• Net Investment in Capital Assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that
are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted for Capital Projects:** The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with restricted assets reported.

- **Unrestricted:** The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

### J. Fund Balance Levels

The City of St. Helena has enacted the Fund Balance policies in an effort to ensure financial security through the maintenance of a healthy fund contingency balance that guides the creation, maintenance, and use of resources for financial stabilization purposes. The City’s primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The City also seeks to maintain the highest possible credit ratings which are dependent, in part, on the City’s maintenance of a healthy fund balance.

1. **General Fund**
   
   The City’s fiscal goal is to maintain annual expenditure increases at a sustainable growth rate, and to limit expenditures to anticipated revenues in order to maintain a balanced budget. The Council’s directed target is to maintain an unassigned fund balance of thirty percent (30%) of annual operating expenditures for the fiscal year.

2. **Buildings, Facilities, & Infrastructure Reserve**
   
   Building, facilities, and infrastructure replacement reserve should be established and maintained to provide for the timely replacement of City owned fixed assets. The balance is hereby defined as assigned by the City Council to allow the City to maintain an infrastructure reserve with a target balance equivalent to the projected annual cost of the first year Capital Improvement Plan fund expenditures.

3. **Equipment, Technology, & Vehicle Replacement Reserve**
   
   The balance is hereby defined as assigned by the City Council to allow the City to set aside an appropriate amount of money to property fund equipment, technology, and vehicle replacement. The City shall set aside funding annually
in this reserve based on the vehicle, technology, and equipment replacement schedule.

4. Other Benefit Reserves
The City’s policy permits employees to accumulate earned but unused vacation and sick leave benefits which are eligible for payment upon separation from service. Retiring employees have the option of applying 100% of their unused sick leave accrued towards the payment of continuation insurance premiums, to the extent allowed by law. The City should set aside funding annually in this reserve to match the current liabilities.

5. Unassigned Operating Reserve
These balances are hereby defined as unassigned by the City Council to allow the City to weather unpredicted cyclical and rapid downturns in the economy. These funds would be available for use in such conditions to mitigate negative economic fiscal impacts or State takeaways and can be activated within any one budget cycle through Council action. An economic downturn would entail a projected and/or sudden drop in core revenues (major tax and service revenue loss) of equal to or greater than 10% (including the impact of inflation) and/or a change in economic parameters (such as interest rates, debt service rates, pension and health rates) that cause a material change in expenditures of 10% or more, or the occurrence of a local natural disaster or unexpected financial claim requiring the immediate use of cash balances.

6. Water and Wastewater Operating Fund Balances
The City should maintain balances in the Water and Wastewater Funds at a level sufficient to accommodate operating and capital needs. City Council’s directed target for the Water Fund is 10-14 months (83%-106%) of annual operating expenditures in cash and the Wastewater Fund 6-8 months (50%-67%) of annual operating expenditures in cash. These amounts include cash balances in the Water and Wastewater Capital Improvement Project Funds. Multi-year fee studies for these funds should be updated periodically as a basis for defining the revenue sources necessary to maintain system infrastructure and required service levels. As a result of the periodic fee or master plan studies, adjustments to user charges may be necessary to maintain recommended fund balance levels.

K. Financial Reporting
Budget decisions are of primary concern for the City Council, City Management, the public, and various stakeholders. When considering the budget, staff presents updated projections for revenues and expenditures/expenses and the reports indicate whether prior estimates are tracking with the approved budget. Additionally, the external annual financial reporting for local governments involves producing the Comprehensive Annual Financial Report (CAFR) which is audited and produced by an
independent, third party CPA/auditor. Throughout the year, the following reports are to be presented to City Council.

1. The City’s accounting and financial reports are to be maintained in conformance with GAAP.

2. Long Range Financial Forecast
   a. A Long Range Financial Forecast (LRFF) for the City’s General Fund will be presented to City Council as part of the development of the annual budget.
   b. The LRFF provides a current and long-range financial assessment of revenues, expenditures, fund balance, and emergency reserves. The primary objective is to provide the City Council and the community with a financial forecast and identify any significant issues that may need to be addressed in the annual budget development process.
   c. The LRFF will consist of a baseline forecast, a recession forecast, and any other forecasts deemed necessary.
   d. The LRFF is a ten-year forecast.
   e. The LRFF will be updated as necessary throughout the fiscal year.

3. Internal Financial Reporting
   a. Internal financial reports help City Council, the public, and management to monitor budgetary compliance on a timely basis.
   b. Internal financial reports often provide more detail on individual departments than does general purpose external financial reporting (Section 4 below) and does not require an independent auditor review and audit.
   c. Internal financial reporting for all funds are to be issued on a periodic and timely basis – no less than quarterly and no more than 30 days after the close of the period. The report will provide detailed information for the General, Water, and Wastewater Funds and summary information for all funds will be included as attachments to the report.
   d. An end of the fiscal year unaudited report will be issued no more than 60 days after the close of Q4 with end of year estimates for revenues and expenditures/expenses for all funds.
   e. Periodic reports will compare the adopted budget (Original Budget), adjusted budget (Final Budget), and the year to date actuals (Actual Amounts).

   a. An annual financial audit will be performed by an independent public accounting firm familiar with municipal government activities. The independent auditor will issue an audit opinion to be included in the City’s Comprehensive Annual Financial Report (CAFR). Additionally, the CAFR and Independent Auditor’s Report on Internal Control over
Financial Reporting and Compliance will be presented to the City Council.

b. The CAFR is a set of financial statements for a state, municipality, or other governmental entity that comply with the accounting requirements established by the Governmental Accounting Standards Board (GASB).

c. In addition to the General, Water, and Wastewater Funds, the City also accounts for activities in approximately 70 special revenue funds that account for monies received from external parties with restrictions on their respective uses. The audit process ensures that the purposes of the various funds were carried out and the relative authorities to spend were honored.

d. The external auditor prepares financial reports for each fund based on the requirements of the funding source and once all funds are audited, they are accounted for in the financial statements, combining schedules, and notes to the financial statements.

e. Unless extraneous circumstances occur, the City will rotate audit service providers every five years. If an auditor is being retained for longer than five years, the reason must be included in a staff report to City Council at the time of the contract execution or renewal.

f. The CAFR will be completed no later than December 31st following the close of the fiscal year.

g. The City is encouraged to submit the Annual CAFR to State and/or national government finance professional organizations (Governmental Finance Officers’ Association’s Certification of Achievement for Excellence in Financial Reporting, California Society of Municipal Finance Officers CAFR Award) for independent review and evaluation.

L. Review and Update

This financial policy will be reviewed periodically and updated, if necessary, to reflect any changing requirements.