



## SECTION 4

# TWENTYNINE PALMS ACCOUNTING, INVESTMENT, FIXED ASSET, FINANCIAL, CAPITAL IMPROVEMENT AND BUDGET POLICIES



**Joshua Tree Inn Café, About 1930**

# TWENTYNINE PALMS ACCOUNTING, INVESTMENT, FIXED ASSET, FINANCIAL, CAPITAL IMPROVEMENT AND BUDGET POLICIES

## Introduction

The City of Twentynine Palms has adopted accounting, investment, fixed asset, financial, capital improvement and budget policies to provide the framework for managing the City's financial resources. These policies are designed to:

1. Contribute to the confidence in the City operations and the commitment of the City Council, City Manager and staff to sound financial practices.
2. Save time and energy of the City Council and appointed officials. Once certain decisions are made at the policy level, those policies may be applied to individual situations and issues.
3. Direct attention of the City Council, City Manager, department heads and the public to the City's total financial condition and link day-to-day operations with long-range financial planning.
4. Contribute to the stability and expeditious handling of the City's financial affairs. The City Council, City Manager and department heads may change over time, but sound financial accounting policies will be in existence to guide whoever holds these positions.

## Accounting Policies

### Accounting Standards.

**The annual budget and audited financial statements of the City of Twentynine Palms are prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applicable to government entities. Generally Accepted Accounting Principles (GAAP) are national accounting standards adopted by the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) is the nation-wide accepted standard body for establishing governmental accounting and financial reporting principles and practices.**

The City also complies with Financial Accounting Standard Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

Twentynine Palms' budget and audited financial statements present the financial position of the City government and its blended component units. Blended component units are entities for which the City is considered to be financially accountable. This includes the Twentynine Palms Redevelopment Agency and the Twentynine Palms Public Finance Authority. These organizations are technically separate legal government entities, but are in substance part of the City of Twentynine Palms' government operations. The City Council acts

as the board of directors for the Twentynine Palms Redevelopment Agency and the Twentynine Palms Public Financing Authority. City employees serve as the staff for all three of these governmental units. The budget and other financial information from these government entities are combined with the budget and financial data of the City of Twentynine Palms. The Twentynine Palms Redevelopment Agency and the Twentynine Palms Public Financing Authority have a June 30 date for the end of their fiscal years.

### **Measurement Focus.**

The accounting and reporting treatment applied to a Fund is determined by its **measurement focus**. All Governmental Funds (General Fund, Special Revenue Funds and Debt Service Funds) are accounted for on a **flow of current financial resources measurement focus**. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental Fund operating statements and budgets present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary Funds (Internal Service Funds and Enterprise Funds) and all Fiduciary Funds are accounted for on a **flow of economic resources measurement focus**. This means that all assets and all liabilities (whether current or non-current) associated with this activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary Funds operating statements present increases (revenues) and decreases (expenses) in net total assets.

### **Basis of Accounting.**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the City's financial statements. The **Basis of Accounting** relates to the timing of revenue recognition in the City's financial statements regardless of the **Measurement Focus** applied. **The accounting basis in the City's annual budget is the same as the accounting basis used in the City's annual audited statements.**

**1. Governmental Fund Types (Tax-Supported Activities).** **The modified accrual basis of accounting is used by the City of Twentynine Palms to apply revenues and expenditures to its Governmental Funds.** Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay for expenditures of the current period. "Measurable" means that the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Taxes, intergovernmental revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to the accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City of Twentynine Palms considers all revenues available if they are collected within sixty (60) days after the end of the fiscal year. Revenues that are accrued include property taxes, franchise fees, interest revenue and charges for service. Sales taxes and motor vehicle license fees collected and held by the

state at year end on behalf of the City are also recognized as revenue. Licenses, permits and fines are accrued when received as they are not measurable until received in cash. Investment earnings are recorded as earned. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when potential revenue meets the asset recognition criteria but does not meet both the “measurable” and “available” revenue criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, such as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**2. Proprietary Fund Types (Business-Type Activities) and Fiduciary Fund Types (Resources Held in Trust).** Expenditures are generally recognized in Enterprise Funds, Internal Service Funds, Private Purpose Trust Funds and Agency Trust Funds under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due. Certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

## **Assets, Liabilities and Fund Equity**

**1. Cash and Investments.** Cash and cash equivalents represent the City’s cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents.

The City maintains a cash and investment pool that is available for use by all Funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month-end cash balances in each fund. Cash is divided into three risk levels in accordance with standards that have been developed by the Governmental Accounting Standards Board (GASB) in Statement No. 3:

**A. Category 1 Investments.** Insured or collateralized with securities held by the City of Twentynine Palms or by its agent in the City’s name.

**B. Category 2 Investments.** Collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.

**C. Category 3 Investments.** Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City of Twentynine Palms’ name.

In accordance with Governmental Accounting Standards Board (GASB) 31, all City investments are stated at fair value. Fair value is based on the quoted market prices as of the valuation date. Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent cash and investments' balance exceeds the cumulative value of those investments subject to Governmental Accounting Standards Board (GASB) 31.

The fair value of the City's investment in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 is reported in the City's financial records and financial statements at amounts based on the pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**2. Internal Controls.** The internal control structure of the City of Twentynine Palms is designed to ensure that the assets of the City are protected from loss, theft, or misuse. It is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls within the City of Twentynine Palms address the following issues:

**A. Control of Collusion.** Collusion occurs where two or more employees work in conjunction to defraud the City. The City has an organizational structure and operational policies and procedures that are designed to prevent collusion.

**B. Separation of Transaction Authority from Accounting and Record Keeping.** The City has segregated job duties so that the person who authorizes or performs the transactions is different from the person who records or otherwise accounts for the transaction. The City's Finance Department has divided duties and record keeping among employees with a Finance Director overseeing day-to-day operations.

**C. Custodial Safekeeping.** Funds collected by the City are deposited into the bank each day. Any small amounts of cash or checks held at the end of the day are placed in a safe in a locked room. Securities purchased from any bank or dealer (including appropriate collateral) for short-term or long-term cash investments are placed with an independent third party for custodial safe keeping.

**D. Avoidance of Physical Delivery of Securities.** The City avoids the physical delivery of securities. Book-entry securities are easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

**E. Clear Delegation of Authority to Subordinate Staff Members.** Staff members in the Finance Department have a clear understanding of their authority and responsibilities to avoid improper actions. Clear designation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

**F. Written Confirmation of Transactions for Investments and Wire Transfers.** Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions are supported by written communications and approved by the authorized supervisor. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

**G. Wire Transfer Agreement with Lead Bank.** The City has a wire transfer agreement with its bank that addresses controls, security provisions and responsibilities of each party making and receiving wire transfers.

**3. Accounts Receivable.** Billed but unpaid services provided to individuals or non-government entities are recorded as “accounts receivable.” The Proprietary Funds include a year-end accrual for services through the end of the fiscal year, which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectible accounts in the Enterprise Funds.

**4. Compensated Absences.** It is the City’s policy to permit employees to accumulate earned (but unused vacation), sick pay and compensatory time benefits up to the limits imposed in the City of Twentynine Palms Personnel Rules and Regulations. Vested or accumulated vacation, holiday and sick leave along with any compensatory time that is expected to be paid with expendable available financial resources is reported as an expenditure and fund liability in the Governmental Fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts. Vested leaves in Enterprise Funds are recorded as an expense and liability as the benefits accrue.

**5. Long-Term Liabilities.** The government reports long-term debt of Governmental Funds at face value. Long-term liabilities for all Governmental Funds and Fiduciary Funds do not affect net current assets and are not included on their respective balance sheets in previous years. Long-term liabilities of proprietary and non-expendable trust funds are accounted for in the respective funds.

**6. Inventory.** Inventory is valued at the cost that approximates market, using first-in, first-out (FIFO) method. The consumption method is used to account for the inventory of Governmental Funds including the General Fund, Special Revenue Funds and Capital Projects Funds. The value of the City’s office supply inventory is not considered material and as a result, no inventory value is shown in the City’s financial statements or in the annual budget.

**7. Bond Discounts.** In Governmental Funds, bond premiums, discounts, and issuance costs are recognized in the current period. Bond discounts are presented as a reduction of the face amount of the bonds payable. Issuance costs are reported as an expenditure of the period. For Proprietary Funds, bond premiums and discount, with issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

**8. Called Developer Bonds.** Revenues from called developer bonds arising from contract defaults are deferred and recognized as revenues when the related costs to complete the project are incurred by the City.

**9. Unappropriated Fund Balance and Unreserved Cash and Investments.** The Unappropriated Fund Balance in Governmental Funds and Unreserved Cash and Investments balances in Proprietary Funds indicate that portion of Fund Equity which is available for appropriation in future periods. Restricted Fund Balances or Reserved Fund Equity indicates that a portion of Fund Balance or Fund Equity has been segregated for specific purposes or is not available for appropriation. Reservations of retained earnings are limited to outside third-party restrictions.

**10. Contributed Capital.** Contributed capital are non-cash assets recorded in Enterprise Funds and primarily represents infrastructure such as water lines, sewer lines or assets received from other funds, developers, or customers. Contributed capital designations in the Enterprise Funds cannot be spent for operating or capital needs.

## **Taxes and Other Significant Revenues.**

**1. Property Taxes.** San Bernardino County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions.

Property tax is imposed on real property (land and permanently attached improvements such as buildings) and tangible personal property (moveable property) located within the state. The California property tax is ad valorem, based on the value of the property rather than on a fixed amount or benefit to the property or persons. Intangible assets and rights are not subject to taxation except to the extent that they are necessary to put real property interests to beneficial or productive use. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the San Bernardino County Assessor. Tax rolls contain an entry for each parcel of land, including parcel number, owner's name and value.

The amount of the tax is based on an annually determined assessed valuation. The property tax is paid to the county tax collector and allocated to local taxing agencies. The property tax is guaranteed by placing a lien on the real property. For this reason, types of properties are distinguished as secured or unsecured.

Certain special exemptions to the standard assessment rules are provided in the State Constitution and state law. These exemptions include federal and state owned property, municipal owned property except property outside the legal boundaries of the agency, homeowners property tax exemption, property owned, irrevocably dedicated to religious, hospital, cemeteries and schools and the California Air Patrol; Williamson Act; disabled veterans; and other exemptions.

Property taxes are levied in equal installments on November 1 and February 1. They become delinquent respectively on December 10 and April 10. The lien date is March 1 of each year. Property taxes are accounted for in the City of Twentynine Palms General Fund and the Twentynine Palms Redevelopment Agency. The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum of \$1.00 per \$100 of full cash value. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after the end of the fiscal year. Property tax on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year-end accrual. Taxes on individual pieces of property may be delinquent up to five years before the property is sold for delinquent taxes.

Under state statute, the County Treasurer, acting as a tax collector, must settle and disburse all current tax collections to all taxing units by the end of March following the taxing year. Delinquent taxes are collected throughout the year and dispersed to the taxing units on a routine basis.

The City receives property taxes under the "Teeter Plan." The Teeter Plan allows cities to collect 100 percent of assessed taxes each year in lieu of receiving only those taxes collected by the County. San Bernardino County receives the penalties and interest when delinquent taxes are collected in future years. The County benefits by charging interest substantially higher than market rates when the delinquent taxes are collected.<sup>110</sup>

---

<sup>110</sup> The Teeter Plan was enacted in 1949, an alternative method for allocating delinquent property tax revenues, authorized by Revenue and Taxation Code Section 4701, in which the County Auditor allocates property tax revenues based on the total

**2. Sales and Use Taxes.** California sales tax is imposed on retailers for the privilege of selling tangible personal property. A portion of the tax is a state tax and a portion is locally imposed. The tax base for the sales tax is the retail price of tangible personal property. Tangible personal property is any material asset, such as household goods and business equipment which is readily moveable and not permanently attached to real property. Sales tax applies to a transaction if (1) the seller's registered place of business in California participates in the sale and (2) title to the goods passes to the customer within the state.

The use tax complements the sales tax. It is imposed on the storage or use, or other consumption in California of property purchased from a retailer in cases where the sales tax is not collected. While sales tax is imposed on the seller, the use tax is imposed on the purchaser and at the same rates as the sales tax. The use tax was first imposed in 1935, in order to discourage buying from out of state solely for the purpose of avoiding state sales tax, and thereby placing California retailers at a competitive disadvantage.

Sales and use taxes are collected by the State Board of Equalization and remitted to the City quarterly. Sales and use taxes are recorded as revenues when received by the State Board of Equalization.

**3. Franchise Fees.** Franchise fees collected by Southern California Edison and The Gas Company are remitted to the City each year on April 15. Cable television franchise fees from Time-Warner are sent to the City quarterly and franchise fees from Burtec Waste Recycling Services, LLC are remitted monthly to the City.

### **Financial Reports.**

The City staff prepares appropriate monthly financial statements reflecting the operations of individual Funds for internal use by the City Council, City Manager, department heads and the general public. The City adheres to a policy of full and open public disclosure of all financial documents.

### **Independent Audits.**

An independent audit of the City's financial statements is conducted each year by an independent Certified Public Accounting firm. The City also participates in a number of federal and state assisted grant programs, which are subject to annual financial, and compliance audits.

---

amount of property taxes billed, but not yet collected. The county government then collects and keeps the delinquency, penalty and interest payments.

# Investment Policies

## **Introduction.**

Investment policies and practices of the City of Twentynine Palms are based upon state law, City ordinances, Generally Accepted Accounting Principles (GAAP), prudent money management principals and the “prudent person” standard (Civil Code Section 2261, *et. seq.*). The City has five primary goals in the investment of its public funds. They are:

**1. Rate of Return.** Achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default.

**2. Daily Cash Flow.** Meet the daily cash flow needs of the City of Twentynine Palms, Twentynine Palms Redevelopment Agency and Twentynine Palms Public Financing Authority.

**3. Compliance.** Comply with City ordinances and the laws of the State of California regarding investment of public funds.

**4. Investment Records.** Maintain accurate and complete investment accounting records.

**5. Financial Reports.** Prepare reliable financial reports of the investment portfolio for the City Manager, City Council and the public.

## **Scope.**

The City’s investment policies apply to all funds under the direct authority of the City of Twentynine Palms. These funds include, but are not limited to, the City’s revenues associated with the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Project Funds, Private-Purpose Trust Funds, Agency Funds, proceeds from bond sales and any other funds under the City’s control. It is also applicable to the City’s blended component units including the Twentynine Palms Redevelopment Agency and the Twentynine Palms Public Financing Authority.

## **Pooling of Funds.**

Except for cash in certain restricted and special funds, the City of Twentynine Palms consolidates cash balances from all funds to maximize investment earnings. The City schedules its collection of receipts, deposits of funds and disbursements of monies to ensure maximum availability of cash for temporary investment purposes. Investment income is allocated to the various Funds based on their respective participation and in accordance with Generally Accepted Accounting Principles (GAAP).

## **Investment Objectives.**

The primary objectives (in order of priority) of City investment activities are the safety of principal and preservation of capital, liquidity, and yield.

**1. Safety of Principal and Preservation of Capital.** Safety and principal and preservation of capital are the foremost objectives of the investment program. Investments are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest-rate risk.

**A. Credit Risk.** The City of Twentynine Palms will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

- (1) Limiting investments to the safest type of securities.
- (2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with whom the City of Twentynine Palms will do business.
- (3) Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

**B. Interest Rate Risk.** The City of Twentynine Palms will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

- (1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- (2) Investing operating funds primarily in shorter-term securities or with state and local government investment pools.

**2. Liquidity.** The investment portfolio remains sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with the City's cash needs to meet anticipated demands (static liquidity). A portion of the portfolio also may be placed in money market mutual funds or Local Government Investment Pools (LGIP's) which offer either same-day or next-day liquidity. Furthermore, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets (dynamic liquidity).

**3. Yield.** The investment portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs of the City. Return on investment is of secondary importance compared to the safety and preservation of capital and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

**A. Loss of Principal.** A security with declining credit may be sold early to minimize loss of principal.

**B. Security Swap.** A security swap would improve the quality, yield, or target duration in the portfolio.

**C. Liquidity.** Liquidity needs of the portfolio require that the security be sold.

## **Standards of Care**

**1. Prudence.** The standard of prudence used by investment officials is the “prudent” person standard (Civil Code Section 2261, *et. seq.*) and is applied in the context of managing an overall investment portfolio. Investment officers acting in accordance with written procedures and this overall investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and sale of securities are carried out in accordance with the terms of this policy.

Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**2. Public Trust, Ethics and Conflicts of Interest.** Investment officials recognize that the investment portfolio is subject to public review and evaluation. The overall program is designed and managed with a degree of professionalism that is worthy of the public trust.

Officers and employees involved in the investment process refrain from personal business activity that could be in conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Twentynine Palms.

**3. Delegation of Authority.** Authority to manage the City’s investment program is granted to the City Manager and his or her designee, hereinafter referred to as the “Investment Officer.” Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with this investment policy.

## **Authorized Financial Dealers and Institutions.**

The City transacts business with banks and savings and loans, and with investment securities dealers in compliance with the City’s investment policy. The Finance Department will maintain a list of financial institutions authorized to provide investment services. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

1. Audited financial statements.
2. Proof of National Association of Securities Dealers (NASD) certification.
3. Proof of state registration.
4. Completed broker/dealer questionnaire.
5. Certification of having read and understood and agreeing to comply with the City of Twentynine Palms’ investment policy.

The City on an annual basis submits a copy of the current investment policy to all financial institutions approved to do business with the City. Confirmation of receipt of this policy is considered evidence that the dealer has read and understands the City's investment policy and will recommend and execute only transactions suitable for and in compliance with the City's investment policy.

In selecting financial institutions for deposit or investment of City funds, the creditworthiness of the institutions will be considered. The City will continue to monitor financial institution's credit characteristics and financial history throughout the period in which City funds are deposited or invested. The City is authorized by the City Council to conduct investment transactions with the following institutions. Investment transactions with firms, other than those appearing on this list, are prohibited.

**1. State of California Government.** Office of the State Treasurer, Local Agency Investment Fund (LAIF).<sup>111</sup>

**2. Banks.** U.S. Bank and Pacific Western Bank.

### **Suitable and Authorized Investments.**

The City is authorized by California Government Code Section 53600, et. seq. to invest in specific types of securities. Section 43601 of the Government Code sets limits on the type investments that may be in the City portfolio.

- 30% in Medium Term Notes.
- 40% in Negotiable Certificates of Deposit.
- 40% in Bankers Acceptance Notes, not to exceed 180 days in maturity.
- 30% in Commercial Paper, not to exceed 270 days.
- 100% in U.S. Government Treasury Obligations.
- 100% in U.S. Government Agency Debt Issues.
- 100% in Pass-Book Savings Deposits.

The City Council has established further limits on the types of securities in which the City may invest its idle cash. Any investment security (except investment of bond proceeds as explained in the next section) not listed below is not a valid investment for the City of Twentynine Palms.

**1. Local Agency Investment Fund (LAIF) Investments.** LAIF is a special fund of the State of California Treasury that local agencies may use to deposit funds for investment. Investments

---

<sup>111</sup> Due to the state budget and fiscal problems, some questions have been asked regarding the City's investment funds deposited in the Local Agency Investment Fund (LAIF). On May 7, 2003, Philip Angelides, State Treasurer sent a letter to cities and counties throughout the State of California. The Letter states:

"I am aware of concerns expressed on behalf of Local Agency Investment Fund (LAIF) participants as to the relationship of this program to the State's current fiscal difficulties.

"In addressing concerns regarding the safety and liquidity of your deposits in the Local Agency Investment Fund, I would like to remind you that Government Code Section 16429.3 specifically Excludes your LAIF deposits from being transferred, loaned, impounded or seized by any State Agency or Official.

"As your trustee for LAIF funds, I would oppose any statutory change in regard to the program and I will support the intent of the statute that protects your funds."

by the State Treasurer for City funds in LAIF are authorized by the City Council. State law prohibits LAIF from impounding any depositor's funds and prohibits the fund from ever declaring bankruptcy. Total investments of any one public agency in LAIF may not exceed \$50 million. Public entities are limited to 15 transactions per month per account. A minimum transaction is \$10,000.

**2. United States Government Debt Obligations.** These investments would include U.S. Government direct obligations such as Treasury bills, bonds, notes and other certificates of indebtedness where the full faith and credit of the United States are pledged for payment of principal and interest.

**3. United States Government Agency Debt Issues.** These investments include obligations, participations or other instruments of, or issued by, a Federal Agency or a United States government-sponsored enterprise, including obligations of the Federal Home Loan Bank (FHLB) or Federal Farm Credit Bank (FFCB) or other obligations or other instruments issued by, or fully guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association (FNMA). While these U.S. Government debt issues are not backed by the full faith and credit of the United States, they do in fact have de facto backing from the federal government, and it would be most unlikely that the government would let any of these agencies default on its obligations.

**4. Repurchase Agreements.** These agreements would be limited to U.S. Government or its authorized Agencies' securities described in Number (2) and Number (3) above, provided that they are held less than a year.

**5. Certificates of Deposit (CD).** A Certificate of Deposit is a time deposit with a specific maturity evidenced by a certificate. Certificates of Deposit must be issued through financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), a federal agency of the United States Government that insures bank deposits up to \$250,000 per account.

**6. Pass Book Savings Account Demand Deposits.** Savings accounts are approved by the Twentynine Palms City Council provided they are maintained only with banks and savings and loan institutions which are insured by the Federal Deposit Insurance Corporation (FDIC), a federal agency of the United States Government that insures bank deposits up to \$250,000 per account.

**7. Overnight Repurchase Agreements.** The City is authorized with City Council approval to set up a "sweep account" and to enter into an overnight repurchase agreement with an authorized bank to sweep cash from its checking accounts and other appropriate accounts to earn overnight interest on the funds in these accounts.

**8. Zero Coupon Bonds.** Zero Coupon Bonds may be purchased only for purposes of bond defeasance.

### **Investment of Bond Proceeds.**

The City directs the investment of proceeds on bonds or similar debt instruments issued as instructed in the bond indenture or similar investment documents. Securities authorized by the bond indenture or similar investment documents that are not authorized by the City's investment policy will be considered approved when the bond indenture or similar investment document is approved by the City Manager or City Council. Bond reserve funds, escrow funds and any funds approved by the City Council may be invested in securities with maturity limits of five years or an appropriate longer period.

## **Investment Parameters.**

**1. Diversification.** Other than funds invested in U.S. Government debt obligations and the State of California Local Agency Investment Fund (LAIF), the City's remaining investment portfolio is diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Diversification is dividing investment funds among a variety of securities offering independent returns. LAIF is a special fund in the State Treasury which local agencies may use to deposit funds for investment. State law prohibits LAIF from impounding any depositor's funds and prohibits the fund from declaring bankruptcy.

**2. Maximum Maturities.** Section 53601 of the California Government Code allows the investment of City surplus funds in specified types of securities provided that, at the time of investment, the securities have a maturity of five years or less, unless the legislative body has granted expressed authority to make that investment either specifically, or as a part of the Investment Policy approved by the legislative body, no less than three months prior to the investment. It is herein authorized as part of the current investment policy to invest in securities with an estimated average life of five years or less. It is also authorized to invest in securities with a maturity greater than five years, but only when authorized by the City Council no less than three months prior to the investment.

**3. Risk Tolerance.** The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary liquidity. Portfolio diversification is employed as a way to control risk. The City displays prudence in the selection of securities as a way to minimize default risk. No individual investment transaction is undertaken which jeopardizes the total capital position of the overall portfolio. Funds invested in LAIF are considered consistent with this policy. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 3, the City's investment risk is divided into three categories:

**A. Category 1.** Securities that are insured and registered or securities held by the entity or its agent in the City's name.

**B. Category 2.** Securities that are uninsured and registered with securities held by the pledging financial institution's trust department or agent in the City's name.

**C. Category 3.** Securities that are uninsured and unregistered with securities held by the counter party, or by its trust department or agent, but not in the entity's name. This includes the portion of the carrying amount of any underlying securities.

**4. Equal Opportunity.** The City does not knowingly invest funds in an institution that practices or supports, directly or indirectly through its actions, discrimination based on race, religion, color, creed, nationality or ethnic origin, age, sex or physical disability.

**5. Prohibited Investment Activities.** This policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates. It further prohibits investing in common stocks, using reverse repurchase agreements, using derivative products, buying mortgage derived interest only strips, purchasing investments using margin accounts and/or leveraging of the City's investment portfolio.

## **Safekeeping and Custody.**

**1. Custody.** To protect against potential losses by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of custody agreement executed by the bank and the City.

No outside broker/dealer or advisor may have access to City funds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the City Council.

**2. Internal Controls.** A system of internal controls has been established to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or unanticipated changes in financial markets. Internal controls deemed most important include control of collusion, separation of transaction authority from accounting and record keeping, custodial safekeeping, avoidance of physical delivery of securities, clear delegation of authority to subordinate staff members, written confirmation of transactions for investments and wire transfers and development of a wire transfer agreement with the lead bank and third-party custodian.

**3. Delivery vs. Payment.** All trades where applicable are executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities are held by a third-party custodian as evidenced by safekeeping receipts.

### **Reporting Requirements.**

The City Treasurer shall submit quarterly investment reports in accordance with California Government Code Section 53646. The report(s) shall include the following:

1. Statement indicating that all cash and investments are in conformity with this investment policy.
2. Statement indicating that there are sufficient funds to meet the expenditures for the next six months.
3. Copy of the most recent statement or statements from the institutions in which the City has funds invested.

### **Investment Policy Adoption and Review.**

The City's independent certified public accountants annually review and make recommendations regarding the City's investment policies to the City Manager and the City Council. In accordance with Senate Bill 564 and Senate Bill 866, effective January 1, 1996, the City staff brings forward each year the City's Investment Policy for review by the City Council.

# Fixed Asset Policies

## **Introduction.**

The City of Twentynine Palms' fixed asset policies are intended to provide specific guidance for determining which fixed assets are subject to separate accounting and reporting (i.e. capitalization). They also outline the procedures to define fixed assets and establish guidelines for their purchase, use, accountancy, inventory, transferring and disposal.

## **Purpose.**

The City's fixed asset policies and procedures are established in accordance with Generally Accepted Accounting Principles (GAAP) and statements issued by the Government Accounting Standards Board (GASB). The objectives of the City's fixed asset policies are to:

- 1. Appropriate Use and Control.** Ensure that there is adequate control and appropriate use of the City's fixed assets for the delivery of municipal services and for the protection of the health, safety and welfare of the community.
- 2. Safeguarding and Preservation.** Carry out the City's fiduciary responsibility to establish systems and procedures to protect its fixed assets acquired with taxpayer resources from loss, theft, misplacement or inappropriate use.
- 3. Accounting and Financial Reporting.** Accurately account for and report fixed assets in financial reports issued to external reporting agencies, financial institutions, bond trustees, granting agencies and the public.

## **Scope.**

The City's fixed asset policies apply to all personnel, departments, divisions and offices of the City government as well as all associated accounting funds under the direct authority of the City of Twentynine Palms. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private-Purpose Trust Funds and Agency Trust Funds. These fixed asset policies are also applicable to the City's blended component unit including the Twentynine Palms Redevelopment Agency and Twentynine Palms Public Financing Authority.

## **Responsibility.**

The Finance Department is responsible for establishing systems and procedures so that the purposes of these policies are implemented and ensure that fixed assets are identified, processed, tracked, inventoried and appropriately reported by fund and asset category. Department Heads and Division Managers are responsible to ensure that proper budgeting and purchasing guidelines are followed, and to ensure that fixed assets are adequately controlled, safeguarded, preserved, and used only for appropriate City purposes.

## **Definitions.**

The City of Twentynine Palms will apply the following definitions to its fixed asset policies and procedures.

**1. Buildings.** Structures of a fixed or semi-fixed nature, which provide shelter and/or create interior space. Buildings also include picnic shelters, storage sheds and restrooms.

**2. Construction in Progress.** Assets that are being built that are not usable at the end of the fiscal year, such as an incomplete building, waterline, sewer line, storm drain line, street, road, traffic signal, or other public improvement or infrastructure.

**3. Capital Expenditure.** A Capital Expenditure is an outlay of funds for fixed assets, including land, buildings, machinery, equipment, construction in progress, design in progress, improvements and infrastructure with an original cost of \$5,000 or more.

**4. Design in Progress.** Capital improvement projects that are in planning or the design stage. The expenditure of these projects is capitalized at year-end if the design has exceeded \$5,000.

**5. Equipment.** Moveable personal property with a useful life of more than one year and a value of \$500 or more. Such items as furniture, machines, tools, vehicles, and computers are included in this category.

**6. Fixed Asset.** Tangible and intangible property owned by the City with a value of \$5,000 or more and a useful life of at least one year.

**7. Improvements.** Physical property of a fixed nature that is added (affixed) to land or buildings. These assets include ground improvements, sidewalks, driveways, landscaping, sprinklers, fences, parking lots, etc. Building improvements include such items as carpeting, air conditioning systems or improvements through remodeling.

**8. Infrastructure.** Includes bridges, traffic signals, streets, roads, curbs, gutters, sidewalks, water lines, sewer lines and storm drain lines.

**9. Intangibles.** Items such as software (not replacement or upgrades).

**10. Land.** Includes the investment in real property or the ownership of ground space such as parcels, easements, and rights-of-way.

**11. Streets and Roads.** Includes all streets and roads that have pavement as well as curb, gutter and sidewalk.

**12. Street Drainages.** Includes storm drainage piping and manholes underneath streets and roads.

**13. Traffic Signals.** All traffic lighting systems that control traffic.

**14. Vehicles.** All vehicles and rolling stock equipment that are maintained by the Public Works Department.

## **Capital Expenditure Definition and Capitalization Policy (Accounting and Financial Reporting).**

**Capital Expenditures for fixed assets, including land, buildings, machinery, equipment, construction in progress, design in progress, improvements and infrastructure with an original cost of \$5,000 or more, will be subject to accounting and reporting (capitalization).** All costs associated with the purchase or construction of the asset are part of the capitalization threshold including ancillary costs such as freight, transportation charges, site preparation expenditures, professional fees, warranties, taxes and legal claims directly attributable to the asset acquisition. Specific capitalization guidelines are described below:

**1. Capitalization Threshold.** An exception to the \$5,000 threshold is land and some infrastructure. All costs associated with the purchase or acquisition of land parcels, rights-of-way, or easements, are capitalized, regardless of cost.

**2. Individual Units of Fixed Assets.** The \$5,000 capitalization threshold is applied to individual units of fixed assets. For example, ten desks purchased through a single purchase order, each costing \$1,000, will not qualify for capitalization even though the total (\$10,000) exceeds the capitalization threshold of \$5,000.

**3. Fixed Asset Components.** For the purpose of capitalization, the threshold will generally not apply to components of fixed assets. For example, a keyboard, monitor and central processing unit purchased as components of a computer system will not be evaluated individually against the capitalization threshold. The entire computer system will be treated as a single fixed asset.

**4. Grants.** Any asset required to be controlled and separately reported pursuant to grant conditions or any other externally imposed reporting requirement, will be capitalized, regardless of cost. For example, a grant program that has funded the acquisition of a fixed asset may impose a requirement that the fixed asset be tracked and identified as a grant-funded asset.

**5. Dedications and Donations.** When an asset is acquired through dedications, donations, developer funding, or in-lieu of fees, the asset will be recorded at its estimated fair market value at the date of acquisition, as determined by the appropriate City department using an appropriate method to determine value.

**6. Repairs and Maintenance.** Repairs to existing fixed assets will generally not be subject to capitalization unless the repair extends the useful life of the asset. In this case, the repair represents an improvement and is subject to the capitalization requirements described below.

**7. Improvements.** Improvements to existing fixed assets will be presumed (by definition) to extend the useful life of the related fixed assets, and therefore, will be subject to capitalization only if the cost of the improvement meets the \$5,000 threshold. Therefore, an improvement to a fixed asset that had an original cost of less than \$5,000, but now exceeds the threshold as a result of the improvement, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.

**8. Capital Projects.** Capital projects will be capitalized as “design in progress” or “construction in progress” until completed. The costs associated with the capital project include direct costs, such as labor and materials, as well as indirect and ancillary costs.

## **Capitalization Valuations.**

The objective fixed asset accounting is to account for the City's historical acquisition cost, not present market or replacement values of City fixed assets. Therefore, fixed assets are valued at historical cost. In those instances where historical costs are not available, fixed assets are valued at estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated. In valuating fixed assets the following guidelines are used.

**1. Buildings.** Costs include all expenditures in connection with their acquisition such as purchase price or construction cost, fixtures attached to the structure, architect's fees, engineering fees, and insurance during construction.

**2. Construction in Progress.** Assets are recorded in the same manner as assets acquired by purchase or construction contract. Costs that are capitalized are service charges, materials, and architects and engineering payments and retentions.

**3. Design in Progress.** Costs that are capitalized include service charges, materials and architects and engineering payments and retentions.

**4. Equipment.** Costs include all expenditures including the purchase price (before trade-in allowance) freight charges, taxes and installation costs.

**5. Improvements.** Costs include all expenditures in connection with their acquisition such as purchase price or construction costs, materials costs, installation costs, fixtures, architect's fees, engineering fees, freight charges, taxes and insurance during construction.

**6. Infrastructure.** Costs include all expenditures in connection with their construction including labor costs, material costs, installation costs, engineering fees, freight charges, sales taxes and insurance during construction.

**7. Land.** Costs include all expenditures in connection with land acquisition such as purchase price, appraisal fees, title policy fees, demolition, site clearance, etc.

**8. Street Drainage.** Costs include all expenditures in connection with their construction including materials costs, installation costs, engineering fees, freight charges, sales taxes and insurance during construction.

**9. Streets and Roads.** Costs include all expenditures in connection with their construction including material costs, installation costs, engineering fees and insurance during construction.

**10. Traffic Signals.** Costs include purchase price, freight charges, taxes and installation charges.

**11. Vehicles.** Costs include purchase price, sales tax, freight charges and installation costs.

## **Depreciation.**

**Principles and Guidelines.** The purpose of depreciation is to spread the cost of fixed assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of the fixed asset.

General Accounting Standards Board (GASB) Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the “modified approach” may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures for these assets are expensed, unless they are additions or improvements.

Except for streets and roads covered by the “modified approach,” depreciation is booked on fixed assets. Depreciation of all fixed assets is charged as an expense against operations each year. The total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the fixed assets.

Depreciation is used solely in Proprietary Fund Types. Depreciation is important in these funds because it is included as an operational expense of these funds. Unlike Governmental Fund Types, fixed assets are reported in the balance sheet accounts of each Proprietary Fund. The use of these assets over a period of time is charged as a depreciation expense.

**Depreciation Method.** Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

**Estimated Useful Life.** The estimated useful life of an asset will vary depending on the type of fixed asset that is being depreciated. The useful life for various fixed assets are indicated below:

Buildings	40-50 Years
Infrastructure	40-50 Years
Street Drainage	40-50 Years
Curb, Gutter and Sidewalk	40 Years
Traffic Signals	20 Years
Furniture, Fixtures & Vehicles	4-5 Years
Machinery and Equipment	2-20 Years

## **Inventory Control Policy.**

**1. Inventory Control Criteria.** Inventory control is applied only to movable fixed assets and not to land, buildings or other immovable fixed assets. Fixed assets subject to inventory control will be accounted for and controlled through the same systems and procedures used to account and control fixed assets subject to capitalization. Fixed assets will be subject to inventory control if they meet at least one of the following criteria:

- A. The fixed asset has a useful life that exceeds one year.
- B. The original cost of the fixed asset is equal to or greater than \$1,000.
- C. Any asset less than \$1,000 as requested from a department. This may include certain machinery and equipment that, due to their portability, character or value outside of the office are susceptible to loss, theft, misplacement or borrowing. It may also include any asset that has been requested by a department to be controlled in order to satisfy an internal (operational) or external federal or state regulatory requirement.
- D. Any asset required to be controlled and separately reported pursuant to grant conditions or any other externally imposed reporting requirement. For example, a grant

program that has funded the acquisition of a fixed asset may impose a requirement that the fixed asset be tracked and identified as a grant funded asset.

**2. Tagging.** Fixed assets will be tagged to support inventory control, prevent theft, stop losses, track the fixed asset's replacement cost, determine asset useful life, promote fixed asset accountability, and provide auditors with a mechanism to verify the City's control of fixed assets. Most fixed assets are tagged with a numbered fixed asset tag. However, some fixed assets such as land, buildings, improvements, infrastructure, machinery and equipment are not tagged because they are immovable or because it is physically impossible or impractical to tag the item because of the way that the fixed assets are used.

**3. Annual Review and Certification.** Each Department Head holds ultimate responsibility for safeguarding their fixed assets against theft or loss. At the end of each fiscal year, the Finance Division will forward to each department a listing of their fixed assets for review and certification. It is the responsibility of the Department Head to verify and certify the accuracy of the information contained on that report. Any discrepancies must be reported to the Finance Division.

**4. Fixed Asset Report.** All departments involved in the construction or dedication of improvements or infrastructure assets must complete a fixed asset report when filing a Notice of Completion or Acceptance. The report must be forwarded to the Finance Department for inclusion in the City's fixed asset data base and the City's engineers for inclusion on the City's Geographic Information Systems (GIS) data base.

**5. Transfers of Fixed Asset.** Requests for transfers of fixed assets will be in writing and submitted to the Finance Division and City Manager for approval. The Finance Department will be responsible for making the appropriate transfers on the City's computerized Fixed Asset data base and keeping a file of all transfers.

## **Disposal of Fixed Assets.**

**1. Disposal Authority.** No fixed assets may be disposed of without the approval of the City Council or the City Manager and Finance Department. Disposal of all land and buildings and all other fixed assets with a value of over \$5,000 must have City Council approval. If it is determined that the fixed assets sold as a unit has a value less than \$5,000, the property may be disposed of in a manner approved by the Department Head, Finance Department and the City Manager. Fixed assets will only be disposed of after checking with other City departments to see if they can use the property.

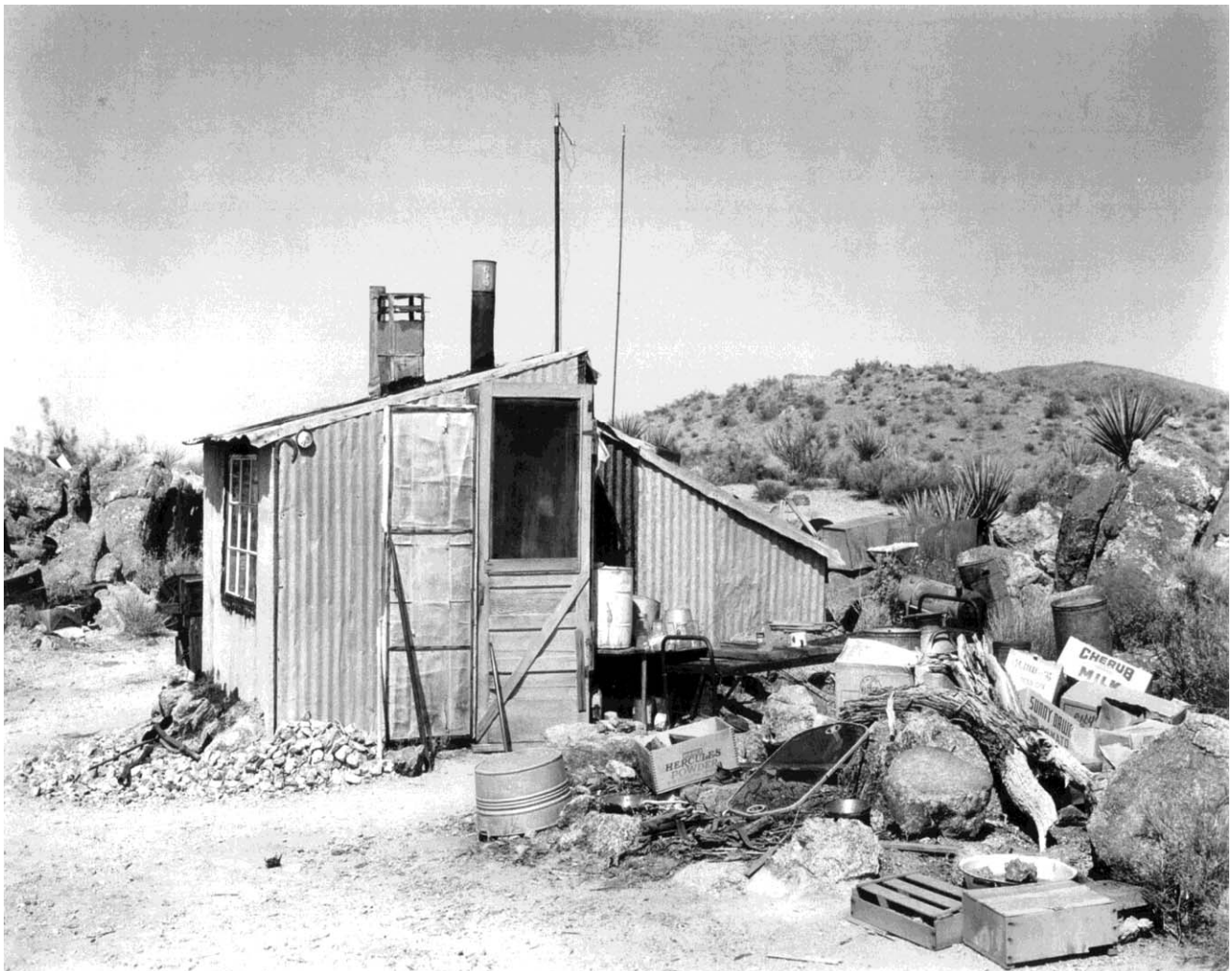
**2. Disposal Value.** It is the responsibility of each department to appraise fixed assets designated as surplus prior to sale.

**3. Disposal Methods.** Fixed Assets may be disposed of in the following ways:

- A. Sealed bids after at least three public notices have been published in the newspaper.
- B. Public auction after at least three notices have been published in the newspaper.
- C. Traded in to reduce the purchase price of a new replacement for a fixed asset.
- D. Taken to a federal or state surplus property facility and sold through that facility.

- E. Sold or donated to another government agency.
- F. Recycled and disposed of as junk to a landfill or other appropriate waste removal facility.
- G. Other method approved by the City Council or the City Manager where it is believed that the highest price can be obtained for the fixed asset. The City Council or City Manager will determine the most appropriate method of disposing of fixed assets.

**4. Proceeds from Sales and Auctions.** All proceeds from the sale of fixed assets will be allocated to the City's General Fund unless the property was originally purchased with monies from a specific City Accounting Fund, in which case, the proceeds will be returned to that specific Accounting Fund.



**Gold Park Cabin--1941**

# Financial Policies

## **Federal, State and County Intergovernmental Grant Revenues.**

The City seeks to acquire grant revenue from federal, state and county sources. The City uses these one-time and non-recurring federal, state and county grant revenues for capital projects or major capital equipment purchases. Revenues from grants are not used for maintenance and operation expenses, to expand programs or increase staffing levels because the City may not be in the financial position to support the activity or staff if the grant revenue ceases to exist. The City only projects the receipt of intergovernmental revenues during the period of time that the federal, state or county authorization exists.

## **User Fee Revenues.**

The City charges the direct beneficiaries of City service fees that recover the partial or full cost of providing certain services. Many of these services provided by the City directly benefit individuals or the private sector. These include recreation programs, building permits, animal licenses and many others. When the general taxpayer subsidizes services of this nature, scarce resource dollars are not available for other City services. In these user-choice services, the customer has the opportunity to determine whether that service is used, with part of that decision being made through the normal pricing system. In such cases, the City is committed to recovering the cost of providing that service through a user fee or service charge. In determining its fee structure, the City:

1. Develops broad policies concerning funding of services.
2. Periodically reviews all services to determine if a fee should be charged.
3. Considers market rates and charges levied by other public and private organizations for similar services.
4. Sets fees that recover the partial or full costs of providing that service.
5. Sets fees that are comparable to other jurisdictions.
6. Periodically evaluates fee amounts.

In some cases full cost recovery is not permitted because of statutory restrictions, and in other cases full cost recovery may not be desired for health, safety or welfare reasons.

## **Development Impact Fee Revenues.**

The City seeks to recover some of the cost of growth through development impact fees assessments on new developments in the City of Twentynine Palms. As Twentynine Palms' population grows, the demand for the expansion of public infrastructure and the purchase of capital equipment needed to serve new development in the City increases.

State law allows (State Mitigation Fee Act, Government Code 66000 *et. seq.*) and fairness dictates that the new residents creating the need for expanded infrastructure and additional equipment capital costs should make a contribution to their acquisition in the form of development impact fees. Development impact fees are

collected by the City of Twentynine Palms for the expansion of public infrastructure and facilities and the purchase of capital equipment needed to for new development in the City. All development impact fees are deposited in separate capital projects revenue and expenditure accounts in a separate Capital Projects Fund specifically designated for the particular development impact fee. Development impact fees can only be spent for capital purchases due to growth and are not used for salary or maintenance or operation expenditures.

### **Long-Term Debt and Public Borrowing.**

Public borrowing through lease-purchase agreements, general obligation (GO) bonds, revenue bonds, certificates of participation (COP) or other legal debt instruments may be in the public interest. However, the City will pursue policies that will not saddle the public with excessive public debt and will carefully scrutinize any public borrowing proposals. **California currently has no constitutional or statutory debt limits for municipalities. Therefore, the City’s elected officials, City Manager and other staff members must use debt in a wise and judicious manner.** Where public borrowing is considered appropriate by the City Council, it will be done in accordance with the following policies:

1. Debt is limited to equipment purchases and major capital projects. It is not used for general operating expenses. It is the policy of the City to maintain cash balances at a sufficient level for general operating costs (those items normally funded in the City’s annual operating budget and having a useful life of less than one year). Short-term securities may be issued in cases where the City’s normal cash flow has been disrupted as a result of natural disaster or unexpected delays in the receipt of federal or state revenues.
2. The maturity date for any debt does not exceed the reasonable expected useful life of the equipment or capital improvement being financed. Generally, the City will limit long-term debt to a term not to exceed 10-15 years.
3. When practical, the City will develop, authorize, and issue revenue, special fee or other self-supporting debt instruments instead of General Obligation Bonds.
4. Coverage for revenue bonds or special fee debt instruments shall be at least 120 % of annual total debt service.
5. The City will maintain good communications regarding its financial condition. It will regularly evaluate its adherence to its debt policies. The City promotes effective communications with bond rating agencies and others in the market place based on full disclosure.



### **City Insurance and Risk Management.**

The City’s liability, workers’ compensation, bonding and special event insurance is provided by the Public Agency Risk Sharing Authority (PARSAC), a public sector risk pool made up of 37 cities throughout the State of California.<sup>112</sup> PARSAC is a joint powers authority public insurance

---

<sup>112</sup>Other cities in PARSAC include Alturas, Amador City, Avalon, Blue Lake, California City, Calimesa, Calistoga, Canyon Lake, Citrus Heights, Clearlake, Coalinga, Ferndale, Grass Valley, Highland, Menifee, Nevada City, Pacific Grove Placentia,

company where there is insurance and risk sharing among the pool participants. The City pays an annual premium to PARSAC for all its coverage. PARSAC is self-sustaining through member premiums.

**1. Liability Insurance Coverage.** PARSAC provides up to \$35 million per occurrence for general and automobile liability and public officials errors and omissions. PARSAC self funds coverage up to \$1 million. Losses that exceed this amount are covered via the CSAC Excess Insurance Authority (CSAC-EIA). The City is self-insured for general liability claims up to \$5,000 for each occurrence. This risk sharing program requires members to maintain three times the retention amount in a reserve fund.

Employment practices liability coverage is a component of PARSAC’s liability program with coverage provided by the Employment Risk Management Authority (ERMA) up to \$1 million per occurrence. Coverage above \$1 million is provided by CSAC-EIA up to the liability program limit of \$35 million.

PARSAC provides cost-effective, qualified defense counsel through the Liability Defense Panel. This highly recognized panel includes attorneys and firms statewide who have proven success in all areas of public entity defense including law enforcement, civil rights, land use, and dangerous conditions of public property. The PARSAC Liability Program is experience-rated, meaning member contributions are adjusted based on loss experience. This method ensures equitable distribution of risk and stable rates. Experience-rating also provides each member with an opportunity to effectively reduce their individual contribution by actively practicing loss prevention.

**2. Workers’ Compensation Insurance Coverage.** PARSAC provides the City of Twentynine Palms with workers’ compensation insurance coverage up to statutory limits per occurrence, including volunteer operations. The organization self-funds up to \$500,000. Losses in excess of this amount up to \$300 million are covered via the Local Agency Workers’ Compensation Excess Pool (LAWCX) and reinsurance. Twentynine Palms has first dollar coverage under this program. PARSAC uses a dedicated Workers’ Compensation Unit which is responsive to employees and ensures their needs are met and they are returned to work appropriately.<sup>113</sup>

**3. Property Insurance Coverage.** The PARSAC Property Insurance Program is a group purchased commercial insurance policy through the Public Entity Property Insurance Program (PEPIP) that is specifically designed for public entities. Members are afforded all-risk, replacement costs coverage with limits up to \$1 Billion including automatic coverage for new acquisitions, auto physical damage, boiler and machinery, and course of construction. There is optional coverage for earthquake and flood damage.

**4. Bond Insurance Coverage.** PARSAC provides Twentynine Palms with a Bond Program. This program is a group purchased program where rate reductions and coverage enhancements are realized because participants are able to leverage their significant purchasing power. This program provides up to \$1 million per occurrence for cost of \$1,500 annually with a \$2,500 deductible. Coverage is provided for the following incidents.

**A. Public Employee Dishonesty.** Coverage includes the faithful performance of duty including loss of money, securities and other tangible property with intrinsic value resulting from

---

Placerville, Plymouth, Point Arena, Rancho Cucamonga, Rancho Santa Margarita, Rialto, San Juan Bautista, South Lake Tahoe, Tehama, Trinidad, Truckee, Watsonville, Wheatland, Wildomar, Yountville, Yucaipa, . The Twentynine Palms Finance Director sits on the PARSAC Board of Directors.

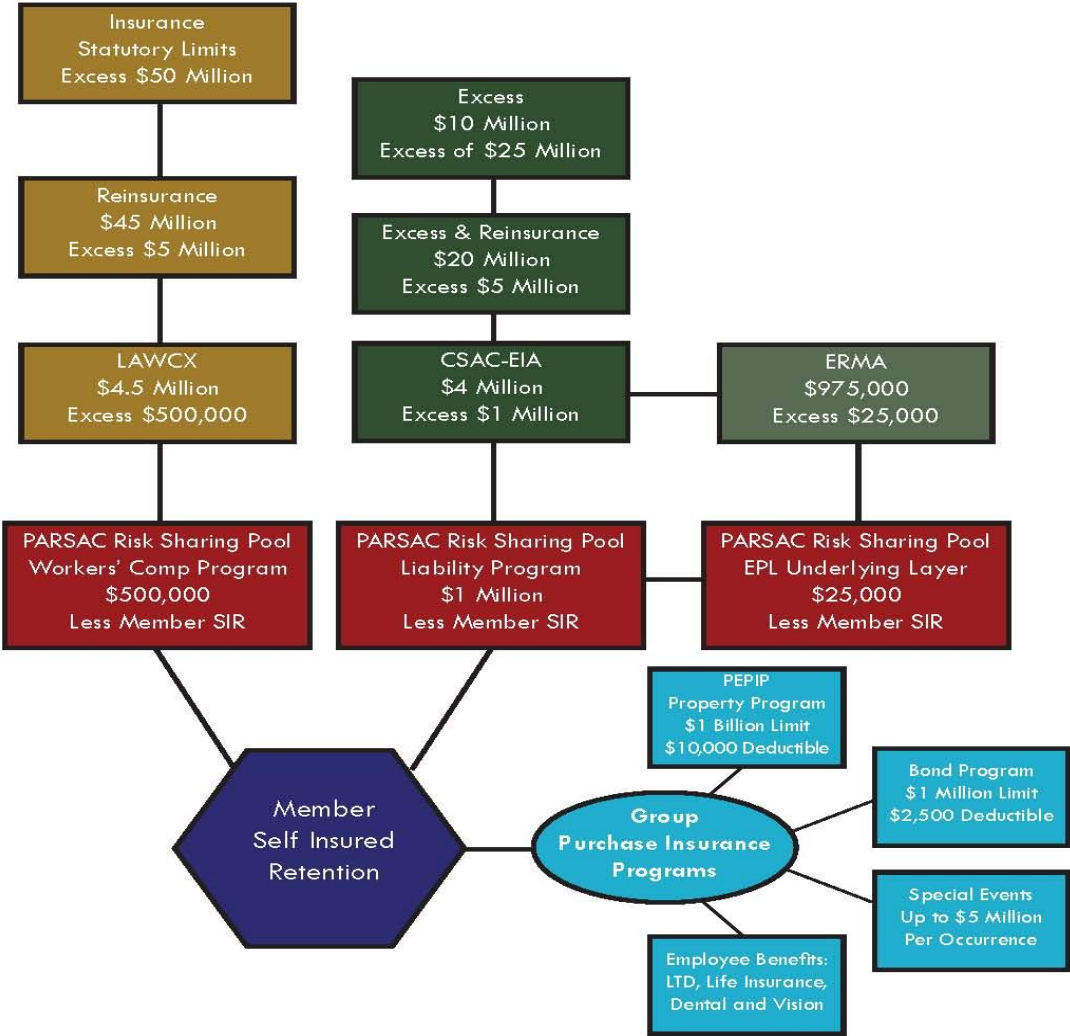
<sup>113</sup> PARSAC uses a dedicated Workers’ Compensation Unit. The unit is composed of a dedicated Examiner, Claims Assistant, Nurse Advocate and Medical Director who have been instrumental in controlling costs through managing treatment and maintaining timely communication with all parties. PARSAC promotes a zero litigation philosophy that ensures all employees receive quality care and timely benefits.

employee dishonesty. It includes loss resulting from failure of any employee to faithfully perform duties as prescribed by law.



# Layers of Coverage

effective July 1, 2010



**B. Forgery or Alteration.** Coverage is provided for loss by forgery or alteration of any checks, drafts, promissory notes or similar written promises, orders or directions to pay money that are made or drawn upon your accounts by persons other than your employees.

**C. Theft, Disappearance and Destruction.** PARSAC provides coverage for losses by theft, disappearance and destruction of money and securities inside premises or banking premises, or outside the premises in the care and custody of a messenger caused by persons other than City employees.

**D. Computer Fraud.** Coverage is provided by PARSAC for City money, securities and other property for theft which follows and is directly related to the use of any computer to fraudulently cause a transfer of that property from inside the City premises or banking premises to a person or place outside those premises caused by persons other than employees.

**5. Special Events Insurance Coverage.** PARSAC established special events insurance coverage to provide member cities with a method for transferring risk to individuals or groups using public facilities for events such as weddings, athletic events, fairs or parades. The relatively inexpensive cost of this insurance is calculated prior to the event and is passed through the facility to the users. Members who participate in this program can receive up to \$1,000 credit toward their annual liability premium. The program provides up to \$5 million per occurrence limits and includes coverage for both public and private events. Coverage options include athletic participants, instructors, volunteers, vendors, exhibitors, concessionaires, and liquor liability. Liability limits are \$1 million per occurrence, with optional excess limits up to \$4 million.

## **Fund Balances In Governmental Funds and Cash and Investments Balances in Enterprise and Fiduciary Funds.**

**1. Definition and Purpose.** Accountants employ the term “Fund Balance” to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government’s budgetary basis. In both cases, “Fund Balance” is intended to serve as a measure of the financial resources available in a governmental fund. It is essential the City of Twentynine Palms maintain adequate levels of fund balance to provide working capital, mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are also a crucial consideration in long-term financial planning.

The “Cash and Investment Fund Balance” is that portion of fund equity that can be used for operating, capital and debt service expenditures, and is intended to serve as a measure of the financial resources available in an Enterprise Fund. It is essential the City of Twentynine Palms maintain adequate levels of cash and investment fund balances to provide working capital, mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable utility rates. Cash and investment fund balance levels are also a crucial consideration in long-term financial planning.

Credit rating agencies carefully monitor levels of fund balance in a government’s General Fund to evaluate a government’s continued creditworthiness. Those interested primarily in a government’s creditworthiness or economic conditions are likely to favor higher levels of fund balance. Opposing pressures often come from employee unions, taxpayers and citizens’ groups, which may view high levels of fund balance as “excessive.”

**2. Fund Balance Policy Considerations.** In establishing a policy governing the level of unrestricted (unreserved) fund balance in governmental funds and cash and investment fund balance in its Enterprise Funds, the City Council takes into consideration the following factors:

- A. The predictability of its revenues and the volatility of its expenditures (i.e. higher levels of unrestricted (unreserved) fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- B. The availability of resources in other funds as well as the potential drain upon General Fund resources from other funds (i.e. the availability of resources in other funds may reduce the amount of unrestricted (unreserved) fund balance needed in the General Fund, just as deficits in other funds may require that a higher level of unrestricted (unreserved) fund balance be maintained in the General Fund.
- C. Liquidity (i.e. disparity between financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- D. Designations (i.e. the City of Twentynine Palms may wish to maintain higher levels of Unrestricted (unreserved) fund balance to compensate for any portion of unrestricted (unreserved) fund balance already designated for a specific purpose).

**3. Fund Balance Policy.** A reasonable minimum fund balance of 95 % of annual revenues in the General Fund, and 30 % in Special Revenue Funds and Capital Project Funds, and reasonable unrestricted cash and investments balance of 95 % will be maintained in the Enterprise and Fiduciary Funds for the following purposes:

1. Provide sufficient working capital to avoid meeting daily cash needs to avoid using tax-anticipation notes.
2. Provide a reserve to absorb emergency expenditures caused by natural disaster such as fire, flood or earthquake.
3. Cover any unanticipated deficit resulting from a shortfall in actual revenues in a given budget year or unanticipated cuts by the State Legislature and Governor of City revenues.

When the unrestricted (unreserved) fund balance of the General Fund exceeds the amount needed for the above purposes, monies are transferred to the General Capital Projects Fund to be used for capital improvements in the City.

Restricted (reserved) fund balances in the General Fund, Special Revenue Funds, and Capital Projects Funds will be separated out and identified in the City's accounting records, financial statements, budgets and audit reports. This same policy is followed with respect to restricted amounts in the cash and investment balances of the Enterprise Funds. The purpose of this policy is to show the City Council, staff and the public what funds in these balances are unrestricted and what funds are to be used for specific purposes.

# Capital Improvement Project Policies

## **New Construction.**

New residential, commercial and industrial developments must be approved by the City Engineer and be fully completed before acceptance by the City. The City requires surety bonds or stand-by letters of credit in a form approved by the City Attorney to guarantee the construction of off-site improvements in all new developments. The improvements that must be installed in each development are water lines, flood control facilities, underground electrical lines, underground telephone lines, underground natural gas lines, underground cable television lines, curbs, gutters, sidewalks and a finished street, with enough road base and asphalt depth to last at least 15 years. Construction standards to achieve this useful life have been determined and adopted by the City Council.

## **Capital Project Funding and Construction Categories.**

Twentynine Palms capital projects may be divided into four categories. They are current-year funded projects, Five-Year Capital Improvements Plan (CIP) projects, planned, but unfunded projects, and unfunded future needs projects.

**1. Category 1 Projects: Current -Year Funded Projects.** This category includes projects that funding has been appropriated in the current fiscal year's capital budgets and legal contracts have been signed to commit these funds. The City Council has determined through the annual budgeting process that these projects are in the best interest of the public's health, safety and welfare. These projects have been carefully planned to maximize the benefits derived through the use of the City's limited resources. Projects that generate future revenues that will fund future services and projects and benefit the entire community will receive first priority for funding.

**2. Category 2 Projects: Five-Year Capital Improvement Plan (CIP) Projects.** This category includes projects where funding will come from projected revenues in the second through fifth year of the Five-Year Capital Improvements Plan (CIP). The fiscal year in which anticipated funding has been reserved may change due to the available revenues. All projects in this category must be tied to a projected funding source.

**3. Category 3 Projects: Planned but Unfunded Projects.** This category includes projects that are planned and required to maintain established levels of services throughout the City for the existing population. Typically these projects are needed as a result of deteriorating infrastructure, updates to various General Plan Elements, or are in areas where minimum levels of service are not currently being met. These projects are not intended to promote residential growth, but to sustain municipal services for the existing residents. If a funding source becomes available, a project in this category may be moved to a Category 2 Project.

**4. Category 4 Projects: Unfunded Future Needs Projects.** Projects under this category are a condition of future growth and will generally be included in undeveloped areas. It is the intent of the City that development should pay for public improvements to meet established minimum levels of service. In this category, projects are not anticipated to be upgraded to a higher category without revenue generating potential.

## **Capital Project Financing.**

Capital improvements and equipment purchases are financed in accordance with the following policies:

**1. General Fund and Enterprise Fund Equipment Purchases.** City departments within the General Fund will finance equipment purchases from current year appropriations. Multi-year equipment lease-purchase agreements will be avoided except in the most rare cases.

**2. General Infrastructure Construction Projects.** Capital projects for general governmental purposes such as land purchases, building construction, road construction, street paving, storm drain installation and other major improvements are financed from revenues allocated to the General Capital Projects Fund. The General Capital Projects Fund contains revenues from unrestricted sources as well as restricted sources such as development impact fees or federal, state and county grants. Major capital improvements that cannot be delayed until the required funds are accumulated may be financed by issuing general obligation bonds, revenue bonds (where permissible), or by a combination of any of these methods.

**3. Enterprise Fund Construction Projects.** All capital projects in the Enterprise Funds are paid from resources provided by development impact fees, contributed capital revenues and net income from operations. If these sources cannot provide sufficient resources for Enterprise Fund improvements, construction of these improvements may be financed by general obligation bonds, revenue bonds or by a combination of any of these methods.

**4. Special Assessment Districts.** Capital improvements or public services that benefit a given area may be financed in accordance with state law by special assessment districts. These districts are established where the majority of the residents or businesses want specific improvements or public services and consent to pay for them over time. In these cases the City finances the specific capital improvements with bonds and public services through a special tax or special annual assessment. Property owners then pay the principal and interest for capital improvements over a designated time period.

## **Utility Coordination.**

All capital construction and maintenance projects are coordinated with Southern California Edison, The Gas Company, Time-Warner Communications, Twentynine Palms Water District and other utilities. This saves Twentynine Palms residents money and will avoid tearing out improvements after they have been installed.

## **Five-Year Capital Improvements Plan.**

The Five-Year Capital Improvements Plan (CIP) is a multi-year guide to the construction of community improvements such as roads, storm drains, curbs, gutters, sidewalks, water facilities, sewer facilities, storm drainage facilities and other needed City improvements. It is through this process that the long-range plan for the orderly maintenance and improvement of Twentynine Palms physical fixed assets can be accomplished. This document is intended to serve as a planning tool and is structured to present a meaningful perspective of the community's long-range needs.

The Five-Year Capital Improvements Plan (CIP) determines the budgeted capital projects for the current fiscal year only. There are no specific appropriations established via the adoption of the Five-Year Capital Improvements Plan (CIP) with the exception of the current fiscal year. Subsequent year appropriations and actual funding sources are identified as part of the preparation of the annual budget.

## **Five-Year Capital Improvements Plan (CIP) Preparation.**

Each department is asked every year to identify potential capital projects and their estimated cost. Financial forecasts of the General Fund, Special Revenue Funds and Enterprise Funds are then prepared to identify what monies will be available for future projects. Projects that cannot be funded from money generated through the general course of business must be financed with development impact fees, grants, bonds or must be postponed or cancelled.

During the City Council budget work sessions, potential capital projects are discussed enabling the City Council to review staff recommended projects and make any necessary changes. When consensus is reached on the capital projects and proposed funding sources, the staff will prepare a formal Five-Year Capital Improvement Plan (CIP) document that will be presented to the City Council. The adoption of this document commits the City Council to spend money on projects listed in the current fiscal year only.

The City can face significant changes in economic conditions, funding sources and political priorities every year. Therefore, the Five-Year Capital Improvements Plan (CIP) must be annually updated.

## **Capital Project Priority Criteria.**

Capital projects are prioritized using revenue generating and cost avoidance considerations; health, safety and welfare considerations; level of service considerations; maintenance considerations; aesthetic considerations; and leverage and timing considerations.

**1. Revenue Generating and Cost Avoidance Considerations.** Projects that enhance revenues or reduce costs will be given first priority in order to improve the financial position of the City and enhance the ability to do future projects or deliver high levels of municipal services. New commercial, residential and industrial development must pay for its infrastructure either by constructing these items or paying impact fees.

**2. Health, Safety and Welfare Considerations.** One of the primary purposes of government is to provide for the health, safety and welfare of its citizens. The City must provide safe drinking water, safe streets, safe sidewalks as well as adequate police protection, solid waste disposal, and storm water disposal and treatment of municipal sewage.

**3. Level-of-Service Considerations.** Many older City developments were constructed decades ago and many newer developments do not meet minimum levels of service as established by the federal government, state government, county government or generally accepted engineering standards.

**4. Maintenance Considerations.** All public improvements must be maintained after the construction is completed. Maintenance staffing and equipment are critical elements that must be considered in project prioritization and must be funded on an on-going basis with revenue sources other than capital improvement funding. The nature of some projects may cause a reduction in maintenance.

**5. Aesthetic Considerations.** Community appearance and aesthetics are important elements in the quality of life in the community. City aesthetics and appearance helps attract new residential, commercial and industrial developments to the City. Twentynine Palms has buildings and public infrastructure that need to be replaced and upgraded to create a more attractive community.

**6. Leverage and Timing Considerations.** Projects that may be funded by entitlement grants or competitive grants from the federal, state and county governments will be considered based

on the availability of funds and the requirements of the granting agency. In addition, the City Council may accelerate capital projects where the City has the opportunity to participate in partnership with other public or private entities or where timing is critical or funding may be lost.



**Bon Van Lahr 29 Palms Inn**

# Budget Policies

**The annual budget conforms to Twentynine Palms' Strategic Plan and City Council goals and objectives and is the primary mechanism for their implementation. The budget is a policy document, operations guide, financial plan and a communications device. It is the single most important means of setting spending policies and priorities in the City. It constitutes approval by the City Council of service levels and operating programs and provides resources to finance them. Expenditures must be kept within total appropriations for all Accounting Funds.**

## Funding Public Services.

Adequate revenue streams are important to fund municipal services determined appropriate by the City Council. It is the policy of the City Council to take appropriate steps to ensure full and continued funding for services, programs and facilities that the City is required to provide by law or regulation or elects to provide. Pursuant to this policy the City will:

- 1. New or Expanded Programs.** The City will consider requests for new or expanded programs during the course of the regular budget process. Only in extreme circumstances will such requests be considered during the middle of the year.
- 2. Monitor Revenue Sources:** All revenue sources will be monitored to maximize revenue collections and provide early warning if revenues fail to meet projections.
- 3. Federal, State and Private Grants.** The City will pursue federal, state and private grants, but will strictly limit financial support of these programs to avoid commitments which continue beyond available funding.
- 4. New Revenues and Revenue Diversification.** The City will continuously seek new revenues and diversify its revenue sources to provide resource stability and limit the dependence on single or a small number of revenue sources.

## Balanced Budget.

**The City of Twentynine Palms will live within its means. All City departments, activities and programs must function within the limits of the financial resources identified and available specifically to them by the City Council or the City Manager. Twentynine Palms will adopt a balanced budget that maintains a balance between all fund revenues and personnel, maintenance and operations, capital and debt service expenditures during the current budget period and over the long term. Twentynine Palms will not spend beyond its revenue streams means no matter how meritorious the program or proposed expenditure.**

As stated above in the accounting policies section, the City uses the modified accrual accounting basis in recognizing revenues and expenditures for the purpose of determining a balanced budget. The City Council with the recommendation and input of the City Manager and the City's independent certified public accountants ultimately determines whether there is a balanced budget. The point at which the budget must be balanced is at the end of the fiscal year.

The City Manager has the authority to reduce, augment or realign the budgets of each accounting fund or to transfer funds between each accounting fund during the fiscal year to maintain a balanced budget. Staff will disclose to the City Council when there is a temporary annual budget shortfall or annual operating deficit.

Specific plans to bring revenues into line with expenditures will be developed and implemented by the department heads, City Manager and City Council to correct any temporary shortages or operating deficits. In addition, the following policies are followed to insure a balanced budget.

**1. Revenue Estimates.** Revenue estimates will strive for accuracy by coming as close as possible to the actual outcome. However, the forecasting of sharp turns in the national, state and local economies is always problematic. In addition, attempting to predict what the governor and State Legislature will do with designated City revenues in their attempt to deal with the on-going state budget crisis is almost impossible. Revenue forecasting is not an exact science and at times relies upon the best professional judgment of the forecaster. To reduce the risks of miscalculating revenues or expenditures, the City attempts to identify as many factors as possible that may contribute to changes in revenues and expenditures.

**2. Current Appropriations.** Current appropriations in all funds are limited to the sum of available, unencumbered cash balances and revenues estimated to be received in the current budget period. Use of unrestricted fund balances is appropriate, but will be carefully scrutinized.

**3. Special Revenue Funds and Capital Project Funds Supported by Grants or Intergovernmental Revenues.** Expenditures in these funds are strictly limited to the mandates of the funding source. Special Revenue Funds and Capital Projects Funds supported by grants or intergovernmental revenues are strictly limited to the mandates of the funding source. These funds are not to be used to subsidize other funds, except as required or permitted by program regulations.

**4. Enterprise Funds.** Enterprise Funds will be self-supporting entities through annual reviews of their fee structures, charges for services, and other operating revenues and expenditures.

**5. Internal Service Funds.** Sufficient charges and rate schedules shall be levied to support operations of internal service funds. No trend of operating deficits shall be allowed. Services shall be scaled to the level of support available from these charge backs.

**6. User Charges and Fees.** Sufficient user charges and fees shall be pursued and levied to support the full cost (operating, direct, indirect and capital) of operations. Market rates and charges levied by other public and private organizations shall be considered when establishing tax rates, fees and charges.

**7. New Revenues.** New and expanded unrestricted revenue streams shall be first applied to support existing programs prior to funding new or expanded programs.

**8. Restricted and Unrestricted Financial Resources.** When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources.

**9. Multi-Year Capital Cost Projections.** Multi-year capital cost projections shall be prepared and updated each year to identify the impact on resources.

**10. Five-Year Capital Improvements Plan.** A Five-Year Capital Improvements Plan shall be prepared and updated each year. The operating impact of each project shall be identified and incorporated into annual operating budgets. Capital assets shall be purchased and maintained on a regular schedule.

**11. Use of Fund Balance.** Unrestricted (unreserved) fund balance will only be used for capital expenditures or one-time projects if the total fund balance exceeds 95% of the previous year's fund revenues. Fund Balance will only be used for operating expenses in the event of an economic down turn that reduces projected revenues or to cover unanticipated revenue shortfalls.

## **Budget Appropriations.**

All City Accounting Funds are included in the annual budget and all revenues and other financing sources are appropriated by the City Council each fiscal year in the annual budget. All Accounting Funds are included in the City's annual audited financial statements, reviewed by the City's independent certified public accountants. The accounting basis in the City's annual budget is the same as the accounting basis used in the City's annual audited statements. Annual operating budgets in the General Fund and Enterprise Funds are carefully reviewed to insure that budget appropriations reflect appropriate funding for service levels established by the City Council. Budget appropriations are conservative because the City feels government units' function more efficiently under conservative operating budgets than where excess funds are made available.

## **Appropriations Limit.**

Under Article XIII B of the California Constitution (the GANN Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules or other refund arrangements.

## **Proposition 218.**

Proposition 218, which was approved by the voters in November 1996, regulates the City's ability to impose, increase and extend taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments and fees are subject to the voter initiative process and may be rescinded in the future by the voters.

## **Budgetary Control and Accountability.**

The budgetary control and accountability is maintained at the department level. The City Council has the authority to adopt the annual budget and transfer budget appropriations between individual Funds. The City Manager acting as the City's Budget Officer, has the authority to transfer budget appropriations between funds, departments and individual line items to maintain a balanced budget.

## **Unexpended Appropriations.**

Encumbrances outstanding at year-end are reported as reservations of fund balances because the commitments will be honored during the subsequent year. Unexpended appropriations cannot be used in subsequent years.

**Budget Adoption Procedures.**

Budgetary procedures for the City have been established by the City Council, which require the legal adoption of a budget for all Accounting Funds. The following are the administrative procedures followed by the City in its budgetary process. (Please also see Figure 17.)

**1. Budget Preparation.** Department heads meet with employees and prepare proposed operating and capital budgets, as well as department goals and performance standards for the coming fiscal year based on guidance provided by the City Manager and City Council. The department heads submit these proposed budgets along with proposed goals and performance standards to City Manager no later than March 1. The Finance Director and City Manager takes information prepared by department heads and prepares the proposed budget for the coming fiscal year for the City Council.

<b>Figure 17 Annual Budget Calendar</b>		
Annual Budget Event	Time	Comments
<b>Department heads submit proposed operating and capital budgets, goals and performance standards to City Manager</b>	<b>March 1</b>	<b>City Manager and Finance Director take information prepared by department heads and prepare the proposed budget for coming fiscal year.</b>
<b>City Manager presents proposed budget to City Council</b>	<b>May</b>	<b>Proposed operating and capital budgets for all Accounting Funds is distributed to public, press and City Council. Copies are available for public review at City Hall and on City website.</b>
<b>City Council reviews budget in work meetings</b>	<b>May and June</b>	<b>City Council conducts reviews during work meetings.</b>
<b>Public Hearing</b>	<b>June</b>	<b>Public is invited to comment on proposed annual budget. City Council makes final budget changes. City Manager incorporates changes made by City Council into final budget document.</b>
<b>Budget Adoption by City Council</b>	<b>June 30</b>	<b>Final budget is adopted by the City Council. Since City revenues are highly dependent upon the actions of the State Legislature, final budget adoption may be delayed in any given year until state budget is adopted.</b>

**2. Budget Presentation.** During the month of May, the City Manager, authorized by the City Council to act as the Budget Officer, submits a proposed operating and capital budgets for all Governmental, Proprietary and Fiduciary Funds to the City Council for the subsequent fiscal year. The budget documents illustrate proposed financing sources along with the proposed operating and capital budget expenditures.

**3. Budget Work Meetings.** The City Council holds one or more public budget work meetings to review the proposed annual budget.

**4. Budget Public Hearing.** A public hearing is held to receive comments on all aspects of the proposed budget. A notice in the local newspaper precedes the hearing. The notice is given at least ten days before the hearing and includes the time, date and place of the hearing. All budget documents are required to be available at least seven days prior to the public hearing.

**5. Budget Adoption.** A final budget is adopted by the City Council for the subsequent fiscal year beginning July 1. Since city revenues are highly dependent upon the actions of the State Legislature, final

budget adoption may be delayed in any given year until the Governor and State Legislature adopt a state budget.



**F.L. Botsford and Dale and Pinto District miner Jack Meek--March 22, 1947**



**El Rancho Delores Motel--1940's**