

CITY OF ROLLING HILLS ESTATES



FUND BALANCE POLICY

INTRODUCTION

The purpose of this document is to state the policy goals of the City of Rolling Hills Estates' General Fund reserves, and the budgeting practices that maintain such reserves. Although there is no formula that defines a completely adequate Fund Balance, a conservative approach should enable the City to finance its operations and meet unplanned expenditures without having to incur short-term debt or raise new revenues.

These policies are intended to provide guidelines for budget decisions as to the appropriate use of General Fund resources and the maintenance of adequate reserves for contingencies, emergencies, capital improvements, and other such uses as determined by the City Council. After amounts projected to be available from the year-end fund balance of the General Fund are allocated to Assigned categories, the remaining amount, referred to as the Unassigned Fund Balance, will be reserved for contingencies as further set forth below.

STATEMENT OF FINANCIAL POLICIES

1. BUDGET POLICIES

- a. The Adopted Budget will be balanced, so that current-year operating revenues will sufficiently fund current-year operating expenditures. Operating revenues are defined as both (a) current year revenues and (b) revenues generated in prior fiscal years, and if in excess of the amount required to fully fund Reserve targets, designated for specific operating or capital uses in future years. Operating deficits are normally contrary to City policy as well as reasonable financial prudence.
- b. Capital improvements will be funded by anticipated current-year operating surpluses and reserves available from prior years. The City will favor pay-as-you-go financing for capital project expenditures, minimizing its use of debt to only extraordinary circumstances.
- c. One-time revenue and fund balance will be used to finance one-time expenditures, except under the most extraordinary of circumstances.
- d. Specified grant revenues in Special Revenue Funds shall be used to minimize the cost to the General Fund of both qualifying operating and capital expenditures.

- e. The Enterprise Funds of the City shall be essentially self-supporting, without need of General Fund resources.

2. RESERVE POLICIES

- a. Available funding will be assigned for identified projects that are not appropriated in the current fiscal year, such as long-term street maintenance in accordance with the City's Pavement Management System, storm drain repairs, storm water management capital requirements, improvements to the City Hall complex and purchase of City fleet vehicles.
- b. No less than \$1.2 million will remain unassigned in the General Fund for an "Emergency Reserve" as a part of the annual budget.
- c. An additional amount will remain unassigned in the General Fund as a "Contingency Reserve" such that the sum of the "Emergency Reserve" and the "Contingency Reserve" will be no less than 25% of General Fund operating expenditures.
- d. All Fund Balance and reserve allocations are eligible for use at the discretion of the City Council at a time of unforeseen fiscal crisis. Such determinations will be made by the City Council on a case-by-case basis.
- e. In determining whether reserves meet the goals of this policy, they will be measured as a percent of General Fund operating expenditures. For this purpose, operating expenditures will exclude capital improvement projects as well as "Special Projects" that by their nature would not be considered ongoing operational expenditures in terms of either multi-year budget allocations, long-term value and/or useful life span. Examples of "Special Projects" would include but not be limited to such issues as General Plan update/revision costs, excessive insurance, judgment, settlement, mediation and other litigation costs, CEQA costs associated with large-scale projects outside the normal scope of expected Planning activity, and website and other information technology or social media design/upgrade costs.