

FINANCIAL POLICIES

- *Financial Policies*
- *Financial Policies Resolutions – The following four resolutions are scheduled for the City Council to adopt the Financial Policies for the City and its subsidiary districts:*
 - ▶ *Joint Resolution No. 2026-11*
 - ▶ *Resolution HHA 2026-02*
 - ▶ *Resolution HFPD 2026-04*
 - ▶ *Resolution HWD 2026-05*

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FINANCIAL POLICIES

I. BUDGETING POLICY

- The City will adopt an annual budget for the fiscal year beginning July 1st no later than June 30th of the same calendar year.
- The adopted budget will be balanced with current year operating expenditures fully funded by current year revenues.
- Fund balance reserves for the General Fund and Water District will be used only for non-recurring expenditures such as capital projects, studies, etc, and not for on-going operations. In the event that fund balance reserves are used for recurring (operational) expenditures, the City Council will be notified prior to adoption of the annual budget.
- The City Manager is authorized to implement programs as approved in the adopted budget.
- A First Quarter and Mid-Year budget review will be conducted for the City Council to determine the status of projected revenues, expenditures, and other financial situations, along with consideration of needed budget amendments. A Fourth Quarter appropriation review is conducted and budget amendments are presented to the City Council as needed.
- To ensure adequate funding for law enforcement services, the annual Police Department budget shall equal or not exceed 53% of a three-year average of the General Fund audited operating expenditures. The General Fund operating budget is comprised of all expenditures less transfers out, debt service, and capital outlay. Furthermore, the actual expenditures will be comprised of an average of the three most recently audited fiscal years. Should the Police Department budget exceed 53% of the General Fund operating budget and the City is unable to balance the budget without the use of reserves, the City Manager is authorized by the City Council to negotiate with the County of San Bernardino Sheriff's Department to identify cost savings to maintain the City Council approved percentage. In addition, should the annual Police Department budget be less than 53% of the General Fund operating budget, the City Manager will be authorized to add additional level of services, be that personnel, programs, or equipment.

II. CAPITAL IMPROVEMENT POLICY

- The City will identify the estimated costs and potential funding sources for each capital project prior to its submittal to the City Council for approval.
- Capital projects involve the purchase or construction of major capital assets such as land; equipment; infrastructure; building or permanent improvements including additions, replacements, and major alterations; having a long life expectancy; and costing \$5,000 or more.
- Capital projects are funded by a variety of funding sources, which are often restricted for a specific purpose. Prior to a capital project being included in the annual budget, a determination must be made that the project is an appropriate use of the funds and that there is sufficient funding available.

III. REVENUE POLICY

Recurring expenditures will be funded by recurring revenue. Recurring expenditure increases that exceed recurring revenue growth should not be approved. Any new or expanded programs should be required to identify new funding sources and/or offsetting reductions in expenditures. In addition:

- The City shall use a conservative approach in projecting revenues.
- One-time revenues may be used for one-time expenditures or enhancement of reserves.
- The City shall update its user fees and charges periodically to recover costs of providing that service for which a fee is charged.
- All potential grants shall be carefully reviewed for matching requirements, maintenance of effort requirements, and on-going future expenditures requirements.
- Intergovernmental grants will be evaluated to determine the long term operating and maintenance costs associated with the grant.
- The City will maintain water and sewer rate structures which are adequate to ensure that these enterprise funds remain firmly and separately self-supporting, including the costs of operation, capital replacement, cost allocation plan, and debt service.

FINANCIAL POLICIES

IV. RESERVE POLICY

The cash reserve policies for the General Fund requires that a minimum of two (2) months of the annual expenditures be held in cash. It is the goal for the Hesperia Water District (Enterprise Fund), which is in the process of building reserves, to have two (2) months of the annual expenditures held in cash. Cash reserves is a calculation of the ratio of cash and cash equivalents to the total individual annual expenditures. The specific purpose of the reserves is to provide funding to meet operational appropriation requirements in the event that either, the City or Water District experience shortfalls in the level of anticipated revenues or unanticipated expenses.

Adequate reserve levels are a necessary component of the City's overall financial management strategy. It is the responsibility of the City Council to maintain a sufficient level of reserve funds to provide for the orderly provision of services to the citizens of the City of Hesperia. The City Council has the authority to decide the circumstances under which the reserves can be used. The City Manager may, from time to time, make recommendations as to the level of reserve funds necessary for prudent fiscal management. Reserve levels shall be reviewed at least annually during the budget process to ensure that they are consistent with the conditions faced by the City. All uses of reserves require a resolution of the City Council or will be incorporated in the annual adopted budget.

If the rare situation arises where a portion of the City's Reserves are to be utilized to fund operations, the equivalent amount will be returned as Reserves in the next available Budget. Use of Reserves in this instance may impact the City's ability to meet the Reserve Policy of holding (2) months of the annual expenditures in cash and requires City Council approval, as incorporated into the adopted budget.

V. TRANSFER AUTHORITY

The following criteria establish the transfer authority for appropriations as set forth in the fiscal year budget.

- Division Managers can make transfers between line items in the same program.
- Department Directors can make transfers between divisions within the same fund.
- Transfers between departments, within the same fund, will require the City Manager approval.
- Transfers between the capital expenditure classification and the operating expenditure classifications will require the City Manager approval.
- Transfers between different funds can only be made with an approved City Council resolution.
- The Finance Division will review all budget transfers and make recommendations to the City Manager.

VI. FISCAL MANAGEMENT

- An independent firm of certified public accountants will perform an annual financial and compliance audit according to General Accepted Auditing Standards (GAAS) that will be incorporated into the Annual Comprehensive Financial Report.
- Annually, the City will seek the Governmental Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting and the Certificate of Achievement for Distinguished Budget Presentation Awards.

VII. INVESTMENTS

- The City will continue to have a written investment policy approved by City Council resolution annually. The policy for investments in priority order is safety, liquidity, and yield.
- The City Council will receive reports on the cash position and performance of City investments on a monthly basis.

VIII. CAPITAL ASSETS

- Assets exceeding the value of \$5,000 are considered capital assets.
- All assets will be maintained at a level that protects capital investment and minimizes future maintenance costs.

FINANCIAL POLICIES

IX. DEBT MANAGEMENT

- The City will not issue long-term debt to finance current operations. Debt financing should only be used for long-term capital improvement projects or purchases of capital assets, such as water rights, that have a useful life exceeding the term of the financing. In addition, identified revenue sources shall be identified to allow for the principal, interest, and other related payments (debt service) of the long-term debt.
- The City will seek to maintain a high credit rating through sound financial practices as a basis for minimizing borrowing costs.
- The City will monitor all forms of debt. Annually, the status of all long-term debt will be reported to the City Council in the annual budget.
- The City will diligently monitor its compliance with bond covenants and continuing disclosures.

X. UNFUNDED LIABILITY

The City maintains three Section 115 Trusts to address the unfunded liability for the CalPERS – Miscellaneous Plan or the City of Hesperia, CalPERS – Safety Plan for the Hesperia Fire Protection District (HFPD), and the other postemployment benefits (OPEB) of the City. The Section 115 Trust plans allow the City to safely and securely set aside funds, separate and apart from the state retirement system, in a tax-exempt irrevocable trust to reduce pension and other postemployment liabilities and stabilize these costs. In addition to potential investment earnings, annual funding of the plans allows the City to maximize the benefits of the trust plans. The following policies indicate the annual funding provisions:

- The City will annually contribute a minimum of five percent (5%) of the annual CalPERS required employer unfunded liability payment into the 115 Trust for the City miscellaneous and safety plan. The City will review the annual CalPERS actuarial valuation report and include into the budget the 5% calculation as transfer to the 115 pension plans.
- The City will annually review the OPEB billing from CalPERS and contribute a minimum 15% to the 115 Trust of OPEB. The City will use the current year OPEB billing to be included in the next year budget. For example, the FY 2024-25 billing will be used for the FY 2025-26 Budget.

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 - ▶ *Joint Resolution No. 202~~56~~-1~~15~~*
 - ▶ *Resolution HHA 202~~56~~-02*
 - ▶ *Resolution HFPD 202~~56~~-0~~41~~*
 - ▶ *Resolution HWD 202~~56~~-0~~53~~*

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