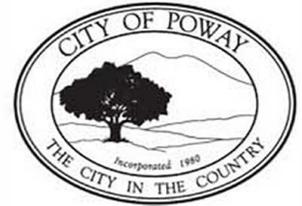


City of Poway

FINANCIAL POLICY



PREAMBLE

The Poway City Council and staff have historically approached our budget process utilizing fiscal practices that can be, and have been, described as conservative. For nearly forty years, Poway's leaders have had the foresight, discipline and ability to manage our City's finances responsibly. Reserves have been established and policies developed to overcome economic uncertainty.

The purpose of this Financial Policy is to codify our past practices that have served us well, and to establish a system under which we regularly review our fiscal policies and practices and update them as needed. The Policy will be reviewed and evaluated annually.

Accordingly, the Poway City Council has adopted this Financial Policy to:

1. Serve as a guiding principle for this and future Councils;
2. Set forth guidelines against which current budgetary performance can be measured; and
3. Provide values to assist with evaluation of future programs.

By adopting this Financial Policy, we confirm the City of Poway's commitment to financial excellence, full disclosure, and responsible financial management.

BALANCED BUDGET

- The City will maintain a balanced operating budget. Operating revenues will fully cover operating expenditures, including debt service, each fiscal year.
- Postponing needed expenditures, accruing future revenues, or rolling over short-term debt in order to balance the budget will be limited to addressing identified, non-recurring impacts and when outside of the City's control.

- City will track revenue and expenditures on an on-going basis and attempt to anticipate future trends beyond the current budget cycle in order to maintain a balanced budget.
- Ending fund balance must meet minimum policy levels.

BUDGET DEVELOPMENT

- Budget development will take place in an open and publicly accessible forum.
- Public involvement is encouraged.
- A citizen's budget review committee will solicit citizen input and serve in an advisory capacity in reviewing operating budget recommendations.
- The City will use a one-year financial plan as well as a long-term fiscal forecast model to promote orderly spending patterns and engage in long-range planning.
- Council will formally review the City's fiscal condition at the midpoint of each fiscal year.

FINANCIAL REPORTING

- The City will contract for an annual audit by a qualified independent certified public accountant and will strive for an unqualified auditor's opinion.
- The City will use generally accepted accounting principles in preparing its annual financial statements.
- The City will strive to meet the requirements of the GFOA awards program for financial reporting.

MINIMUM FUND BALANCE AND RESERVES (ALSO SEE GENERAL FUND RESERVE POLICY)

- The City will maintain a General Fund reserve equivalent to 45% of budgeted annual General Fund operating expenditures.
- The City's goal is to maintain a minimum working capital balance of 20% of operating expenditures in the Water and Sewer Enterprise Funds.

REVENUE MANAGEMENT

- We will seek to maintain a diversified and stable revenue base to protect the City from short-term fluctuations in any one source of revenue.
- The City will maintain revenue projections extending several years into the future.
- One-time and non-sustainable revenues will be excluded as a source to fund ongoing programs, debt service or other long-term obligations.
- With the dissolution of redevelopment, the City will endeavor to set-aside a portion of its annual operating revenue received in lieu of former Property Tax Increment (i.e., Redevelopment Property Tax Trust Fund Distributions) for capital programming as well as facilities and infrastructure revitalization.
- Fees will be reviewed and updated annually in a master fee schedule.
- The City will make conscious decisions about cost recovery and/or general tax subsidy of those services that benefit only portions of the tax-paying public.
- A comprehensive analysis of City costs and fees should be made every 5 to 10 years.

FISCAL CONSTRAINTS AND EXPENDITURE MANAGEMENT

- The City will utilize a competitive procurement process as set forth in a purchasing policy.
- Budgeted expenditures shall reflect the Council's goals.
- The City will continue to search for viable opportunities to prioritize or outsource services, where appropriate.
- The City will track expenditures to evaluate trends and identify potential problems.
- Acquisition of real property or facilities shall be tied to a specific objective, with adequate funds identified and taking into account long-term fiscal and policy impacts.
- Agenda staff reports having a fiscal impact require review by the Finance Department.

ENTERPRISE FUNDS

- Fees and rates will fully cover direct and indirect costs, including operations, capital outlay, long-term maintenance and debt service.
- Enterprise funds will not be subsidized by the General Fund.
- Costs of general government services will be allocated to the enterprise funds based on approved methodology.

INTERNAL SERVICE FUNDS

- The cost of replacing existing equipment will be fully amortized and funded.
- Rates shall be established to recover the replacement cost of each piece of equipment at the end of its useful life.
- Facilities will be amortized to cover ongoing maintenance and cyclical repairs and, to the extent possible, the replacement or expansion of major structures.
- With the dissolution of redevelopment, the City may use funds set-aside for capital programming as well as facilities and infrastructure revitalization (i.e., Redevelopment Property Tax Trust Fund Distributions) to supplement internal service funds designated for the replacement or expansion of major structures.

DEBT MANAGEMENT (SEE DEBT POLICY)

- Debt financing is not appropriate for any recurring purpose, such as operating and maintenance expenditures.
- The City will evaluate pay-as-you-go versus long-term financing in funding capital improvements.
- The City will strive to maintain a high reliance on pay-as-you-go financing.
- The City will use financing mechanisms that appropriately spread the cost of facilities and services to current and future benefiting residents.

HUMAN RESOURCE MANAGEMENT

- The City will strive to provide competitive compensation and benefits to its employees.
- The City will encourage employees to further develop their skills and abilities.

- The City will staff for the “valleys,” not the “peaks.” Temporary and/or contract staffing may be used to meet peak workload requirements.
- Part-time employee hours will generally not exceed 1,000 hours annually.
- New technologies and related capital investments will be evaluated to improve workforce productivity.
- Contracting with the private sector for the delivery of services will be considered where cost-effective and when established service levels can be met or enhanced.

We will hold ourselves, as individuals and the City of Poway organization as a whole, accountable for being consistent with this Financial Policy.