

RESOLUTION NO. 22-____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERCULES AMENDING
THE STATEMENT OF FINANCIAL PRINCIPLES AND POLICIES**

WHEREAS, it is the purpose of this policy to set forth the guiding principles for the preparation and administration of the Operating Budget and Capital Improvement Program (CIP); and

WHEREAS, this policy also includes the guiding principles on General Fund budget reserves and the ending fund balance in order to maintain the current level of budget performance, and

WHEREAS, although the City's finances are stable today, expenses continue to grow, and future challenges associated with pension costs, workforce retention and attraction, and aging infrastructure loom. The Fund Balance Reserve Policy specifies annual reserve levels that provide the City with the flexibility to adapt to local, regional, and state-wide economic changes and to stabilize the delivery of City services during periods of economic recession or disaster response; and

WHEREAS, Staff is recommending adding the following to the Statement of Financial Principles and Policies adopted on December 16, 2015.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Hercules as follows:

1. The City Council hereby approve the following additions to the Statement of Financial Principles and Policies:
 - a. Service Level Expectations - Defining the types and levels of services expected in a given year includes a process of public engagement, understanding current services, identifying the City's mission, long-term vision, and goals of the community. Based on the goals established by the City Council, the City Manager identifies the resources required to deliver services, how best to organize those resources to achieve the City Council's vision for the community and presents those recommendations in the proposed Budget for the City Council review, consideration, and direction. In a service-oriented organization such as a city, it takes a combination of staff and consultants to provide services. As important as it is for a city to invest in its physical capital, it is just as important for a city to ensure it is investing appropriately in its human capital and to determine what is the proper level of staffing and the necessary skill sets required to deliver on the city's mission.
 - b. Reserve Policy - Increasing the general fund reserve policy limit from 16% to 25% (equal to three months of the General Fund Operating Budget) to protect the City from fluctuations in the economy or other significant unplanned needs. Once a 25% funding level is reached, available surplus funds would be directed to other Council priorities.

- c. Long-Term Capital Improvement Project Funding – During the April 26, 2022, Budget Workshop, the current funding strategy for capital projects entail a detailed analysis of the long-term capital improvement project funding needs based on a 5-year forecast. This strategy assumes a “pay as you go” philosophy that does not anticipate the use of debt financing.
- d. General Fund Surplus Allocation – A surplus occurs when income exceeds expenditures. The term is often referred to in government as savings. A surplus is an indication that the City's finances are being effectively managed. Staff recommends that Available resources as determined annually through the closing of the financial records will be used as a basis for the following allocation:
 - i. 25% contribution to Pension/OPEB - The City has established an Internal Revenue Service Code Section 115 irrevocable trust which achieves a higher rate of return on investments than that earned on the pooled investment portfolio, LAIF. 25% of the available fund balance shall be put into a Trust Fund or directly into paying off the CalPERS unfunded liability for either pensions or post-employment benefits.
 - ii. 25% to Operating Reserve – 25% be put into operating reserves up to the 25% policy limit.
 - iii. 50% contribution to unmet/deferred infrastructure and maintenance needs – A funding mechanism to fund projects included in the Long-Term Capital Improvement Project Funding, as described in section c above.

The foregoing Resolution was duly and regularly adopted at a regular meeting of the City Council of the City of Hercules held on the 28th day of June 2022, by the following vote of the Council:

AYES:

NOES:

ABSENT:

Dion Bailey, Mayor

ATTEST:

Lauren Berges, City Clerk