

**City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017**

Purpose

This is the Annual Report by the Finance Commission as the Oversight Committee for Measure B - Transactions and Use Tax Revenues (originally adopted as Measure O in June 2012) and Measure C - Utility Users Tax Rate Revenues (originally adopted as Measure A in June 2013). This report fulfills the Finance Commission requirements specified in City of Hercules Municipal Code to:

- Provide oversight under Title 8 (Finance Revenue and Taxation), Chapter 9 (Temporary Transaction and Use Tax).
- Provide oversight under Title 8 (Finance Revenue and Taxation), Article 4 (Continuation of Increase to Utility Users Tax Rate).

Conclusions

For Fiscal Year ending June 30, 2017, incremental sales and transaction use tax revenues approved by Hercules voters were spent in accordance with the voter approved Measure O adopted in June 2012 and subsequently extended by the voter approved Measure B adopted November 2015. Henceforth in this document, we will use Measure B to reference these voter approved measures since Measure B has taken effect as of the Fiscal Year ending June 30, 2017.

For Fiscal Year ending June 30, 2017, incremental Utility User Tax funds approved by Hercules voters were spent in accordance with the voter approved Measure A adopted in June 2013 and subsequently extended by the voter approved Measure C adopted November 2015. Henceforth in this document, we will use Measure C to reference these voter approved measures since Measure C has taken effect as of the Fiscal Year ending June 30, 2017.

Recommendations

- Recommend that the incremental sale and transaction use tax provided for in Measure B be retained since the City of Hercules has not yet achieved long term financial stability with adequate financial reserves.
- Recommend that the incremental Utility User tax provided for in Measure C be retained since the City of Hercules has not yet achieved long term financial stability with adequate financial reserves.
- Recommend that the Fiscal Neutrality Fund balance be increased by at least \$400,007 to reach a balance of \$2,616,157 to achieve the goal of having a two month reserve as of June 30, 2017.
- Continue to update the Fiscal Neutrality Fund balance each year as the new Budget is approved in order to maintain the two month reserve going forward.

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Reporting Period and Scope

This annual report covers the Fiscal Year ending June 30, 2017.

This report focuses on the General Fund because this fund provides the funding for the concerns expressed on the Measure B and Measure C ballot measures.

Actions Taken

The Finance Commission provided Oversight for Measure “B” and Measure “C” by the following actions:

1. Met on the dates listed below.
 - a. Meetings in 2016 (7): February 22, March 28, April 25, June 20, July 25, September 26, November 28.
 - b. Meetings in 2017 (11): January 12, February 27, March 27, April 17, May 22, May 31, June 19, July 31, September 14, October 19, November 16
2. Reviewed the Final Budgets, Quarterly Financial Reports and variance analyses for the Fiscal Year ending June 30, 2017.
3. Reviewed periodic Long Term Forecasts and Working Cash Balance reports prepared by City of Hercules Finance staff.
4. Reviewed City of Hercules audited Annual Financial Reports for the fiscal years ending June 30, 2017.
5. Reviewed CliftonLarsonAllen, LLP report on “Agreed-Upon Procedures Measure O - Transactions and Use Tax Revenues, June 30, 2017”.
6. Reviewed CliftonLarsonAllen, LLP report on “Agreed-Upon Procedures Measure A - Utility Users Tax Rate Revenues, June 30, 2017”.
7. Formed a sub-committee to develop this report.

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Long Term Financial Stability and Adequate Financial Reserves

The Finance Commission discussed the definition of long-term financial stability and adequate financial reserves on February 22, 2017, March 27, 2017 and May 22, 2017. The Finance Commission decided to use the criteria provided in the City of Hercules Statement of Financial Principles and Policies adopted by the City Council on December 15, 2015 to define “long term financial stability” and “adequate financial reserves.”

The Finance Commission determined that “long term financial stability” means that the City of Hercules is able to maintain “adequate financial reserves” as defined by the following Statement (from the Statement of Financial Principles and Policies adopted by the City Council on December 15, 2015):

“Establish, and then maintain, a “minimum reserve” for economic uncertainties equal to one month’s or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance with a goal of increasing that to two months or 16.66% of expenditures in the future.”

In addition, to fulfill the “adequate financial reserves” and “long term financial stability” requirements, the Finance Commission determined that the City must be able to maintain two months of reserves for the past five consecutive fiscal years and must also show that it could maintain at least the same reserve balance for the next five years in the Long Term Financial forecast.

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Findings

1. Measure B Transaction and Use Tax Revenue receipts are summarized as follows. Fiscal Year 2014 and Fiscal Year 2015 were based on Gallina, LLP reports on Agreed Upon Procedures – Measure B for the periods July 1, 2012 through June 30, 2015 and the periods July 1, 2016 through June 30, 2017 were based on CliftonLarsonAllen, LLP report on Agreed Upon Procedures – Measure O for the period ending June 30, 2016 and Agreed Upon Procedures- Measure B for the period ending June 30, 2017

Fiscal Year	Actual Received Per General Ledger
Fiscal Year 2014 (ending June 30, 2014)	\$952,255
Fiscal Year 2015 (ending June 30, 2015)	\$863,323
Fiscal Year 2016 (ending June 30, 2016)	\$1,181,605
Fiscal Year 2017 (ending June 30, 2017)	\$1,130,251

2. Transaction and Use Tax revenue received in Fiscal Year 2017 under Measure B has been properly collected and paid into the General Fund as required per Ordinance 470 Section 8.9.12 “Use of Tax Proceeds” which states that “All proceeds of the tax levied and imposed under this Article shall be paid into the general fund for use by the City of Hercules.” This conclusion is based on the Finance Commission’s review of the City’s audited Annual Financial Reports, the Quarterly Financial Statements, and the CliftonLarsonAllen, LLP’s report “Agreed-Upon Procedures Measure B – Transactions and Use Tax Revenues, June 30, 2017”, which states that proceeds of taxes levied and imposed under Measure B were paid into the City’s General Fund for use by the City with no exceptions.
3. Measure C Utility Users Tax (UUT) Rate Revenues are summarized as follows based on Gallina LLP’s reports on Agreed Upon Procedures for Measure A, for the periods July 1, 2013 through June 30, 2015 and the CliftonLarsonAllen, LLP’s report “Agreed-Upon Procedures Measure A – Utility Users Tax Rate Revenues, June 30, 2016” and “Agreed Upon Procedures Measure C- Utility Users Tax Rate Revenues, June 30, 2017”.

Fiscal Year	Actual UUT with Measure C	Actual UUT w/o Measure C	Increase in Revenue due to Measure C
Fiscal Year 2014 (ended June 30, 2014)	\$3,182,013	\$2,201,950	\$980,063
Fiscal Year 2015 (ended June 30, 2015)	\$3,439,914	\$2,163,601	\$1,276,313
Fiscal Year 2016 (ended June 30, 2016)	\$3,515,565	\$2,224,000	\$1,291,565
Fiscal Year 2017 (ended June 30, 2017)	\$3,576,053	\$2,306,607	\$1,269,446

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4. Utility Users Tax revenue received under Measure C has been properly collected and paid into the General Fund per Ordinance 481, Section 8-8.402 "Use of Additional Tax Proceeds" which states that "All proceeds of the tax levied and imposed under this Article shall be paid into the general fund for use by the City of Hercules". This conclusion is based on the Finance Commission's review of the City's audited Annual Financial Report for the Fiscal Year ending June 30, 2016, and CliftonLarsonAllen, LLP's report "Agreed-Upon Procedures Measure C – Utility Users Tax Rate Revenues, June 30, 2017".
5. The General Fund had a surplus in Fiscal Years ending June 30, 2014-June 30, 2017 as shown by the Annual Reports for each respective year.

	<u>Actual FY 2014</u>	<u>Actual FY 2015</u>	<u>Actual FY 2016</u>	<u>Actual FY 2017</u>
General Fund Revenue	\$12,638,059	\$13,573,615	\$14,018,112	\$14,859,520
General Fund Expenses	\$11,200,782	\$10,213,252	\$11,046,540	\$11,784,637
General Fund Surplus	<u>\$1,437,277</u>	<u>\$3,360,363</u>	<u>\$2,971,572</u>	<u>\$3,074,883</u>

6. Measure B and Measure C revenues increased revenue to the General Fund starting in Fiscal Year 2014.
 - a. The following is a summary for the fiscal years ending June 30, 2014 through June 30, 2016:

General Fund Revenue Sources	Actual FY 2014	%	Actual FY 2015	%	Actual FY 2016	%
Other General Fund Revenue	\$10,844,803	85.8%	\$11,588,959	85.4%	\$11,544,942	82.4%
Measure B Revenue (Note B)	\$952,256	7.5%	\$863,323	6.4%	\$1,181,605	8.4%
Measure C Revenue (Note C)	\$841,000	6.7%	\$1,121,333	8.3%	\$1,291,565	9.2%
Total General Fund Revenue (Note A)	<u>\$12,638,059</u>	<u>100.0%</u>	<u>\$13,573,615</u>	<u>100.0%</u>	<u>\$14,018,112</u>	<u>100.0%</u>

Note A: Total General Fund Revenue per audited Financial Statements for each year.

Note B: Measure B Transactions and Use Tax Revenues per Gallina (FY14-15) and CliftonLarsonAllen (FY16) agreed upon procedures report for Measure O.

Note C: Measure C Utility Users Tax Rate Revenues per Gallina (FY14-15) and CliftonLarsonAllen (FY16) agreed upon procedures report for Measure A.

- b. The following is a summary for the fiscal year ending June 30, 2017:

General Fund Revenue Sources	Actual FY 2017	%
Other General Fund Revenue	\$12,459,823	85.8%
Measure B Revenue (Note B)	\$1,130,251	7.6%
Measure C Revenue (Note C)	\$1,269,446	8.5%
Total General Fund Revenue (Note A)	<u>\$14,859,520</u>	<u>100.0%</u>

Note A: Total General Fund Revenue per audited Financial Statements for each respective year.

Note B: Measure B revenue based on agreed upon procedures report for Measure A or Measure C for each respective year.

Note C: Measure C revenue based on agreed upon procedures report for Measure O or Measure B for each respective year.

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7. Without the Measure B or Measure C revenues, the City would have had a deficit in Fiscal Year 2014 and would have had much smaller surpluses for the Fiscal Years 2015 through 2017.
- a. The following is a summary for Fiscal Years ending June 30, 2014 to June 30, 2016:

	<u>Actual FY 2014</u>	<u>Actual FY 2015</u>	<u>Actual FY 2016</u>
Other General Fund Revenue (excluding Measure B and Measure C)	\$10,844,803	\$11,588,959	\$11,544,942
Total General Fund Expenditures	\$11,200,782	\$10,213,252	\$11,046,540
(Deficit)/Surplus without Measure B and Measure C Revenue	<u>\$(355,979)</u>	<u>\$1,375,707</u>	<u>\$498,402</u>

- b. The following is a summary for Fiscal Year ending June 30, 2017:

	<u>Actual FY 2017</u>
Other General Fund Revenue (excluding Measure B and Measure C)	\$12,459,823
Total General Fund Expenses	\$11,784,637
(Deficit)/Surplus without Measure B and Measure C Revenue	<u>\$685,186</u>

8. The Long Term Financial Forecast as of August 2017 projects that the General Fund will have deficits for the Fiscal Years 2018, 2019, 2021, and 2022 and will not be able to meet the two month reserve requirement in any of the forecasted years.

<u>Long Term Plan Forecast as of August 2017</u>	<u>FY 2018/19</u>	<u>FY2019/20</u>	<u>FY 2020/21</u>	<u>FY2021/22</u>	<u>FY2022/23</u>
General Fund Revenue Forecast	\$14,671,380	\$15,346,957	\$16,220,064	\$16,678,653	\$17,197,186
Operating Expense Forecast	\$15,031,591	\$15,566,740	\$16,120,473	\$16,732,299	\$17,326,282
Net Surplus(Deficit) Forecast	<u>(\$360,211)</u>	<u>(\$219,783)</u>	<u>\$99,591</u>	<u>(\$53,646)</u>	<u>(\$129,096)</u>
Fiscal Neutrality Fund Forecast	\$1,818,529	\$1,598,745	\$1,698,336	\$1,644,691	\$1,515,595
Two Month Reserve (16.66% of Expenses) Requirement	\$2,504,263	\$2,593,419	\$2,685,671	\$2,787,601	\$2,886,559

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9. The Annual Financial Report for the Fiscal Year ending June 30, 2017 summarized the objectives of the General Fund.

“General Fund - This fund is used to account for all revenue and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities such as police, planning, engineering, public works, operations and maintenance, and legal and administrative services”.

10. The General Fund provides the funding for the issues expressed in the Measure “O” and Measure “A” ballot language:

- a. **MEASURE O:** "Local Temporary Emergency Funding Measure. To address Hercules' Fiscal Emergency, stabilize city finances, offset budget shortfalls/the impact of State budget cuts on local services, prevent reductions to the number of police officers/crime investigators, protect/maintain crime prevention, childcare, youth sports and recreation programs and other general City services, shall the City of Hercules establish a 1/2 cent sales tax legally ending after 4 years.
- b. **MEASURE A:** “City of Hercules Fiscal Accountability/Services Protection Measure. To restore Hercules to financial stability, enhance fiscal accountability, continue to maintain our own local Police Department, and prevent drastic cuts to neighborhood police officers, youth/senior programs, and other services, shall Hercules modernize its utility users tax with equal treatment of taxpayers regardless of technology, increase the rate by 2% for 5 years, maintain current low-income exemptions, with citizens’ oversight, independent audits, and local control of revenues.”

11. Based on the impartial ballot analysis by the City Attorney, Measure “O” did not limit use of Measure “O” funding to a specific purpose:

“Because Measure O does not limit the use of tax revenue to a specific purpose, the proposed tax is a general tax, requiring a majority vote (approval by more than fifty percent (50%) of City voters voting in the election) for passage. Therefore, the City shall use the funds for a variety of purposes, including but not limited to addressing the City's Fiscal Emergency; increasing police officer staffing, which is below Recommended Safety Levels; maintaining current levels of emergency services; providing additional funding for neighborhood police patrols, emergency response times, crime prevention and investigation resources; earthquake preparedness; after-school programs for children and teens; senior services; and parks.”

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12. Based on the impartial ballot analysis by the City Attorney, Measure “A” did not limit the Measure “A” funding to a specific purpose:

“Because Measure A does not limit the use of tax revenue to a specific purpose, the City may use the funds for a variety of purposes, including but not limited to maintaining financial stability and accountability; maintaining the Hercules Police Department; maintaining neighborhood police patrols, improving 9-1-1 response times; expanding neighborhood crime prevention programs; attracting business to Hercules; and preventing cuts to street maintenance.”

13. The City Council approved the City of Hercules budget for Fiscal Year 2017. However, the budget for Fiscal Year 2017 did not include any specific priorities for the use of Measure B or Measure C funds. In addition, subsequent to the approval of the annual budgets, as of December 31, 2017, the City Council did not approve any specific priorities for the use of Measure B or Measure C funds.
14. The City of Hercules increased its balance in the Fiscal Neutrality Fund by \$7,007 from June 30, 2016 to June 30, 2017.
- a. This balance as of June 30, 2017 equals 13.85% of the Final Budgeted Total Expenditures for Fiscal Year ending June 30, 2017.
 - b. The Fiscal Neutrality balance as of June 30, 2017 exceeds the “minimum reserve” for economic uncertainties equal to one months or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance” through the Fiscal Neutrality Fund for the Fiscal Year ending June 30, 2017; but is less than the eventual goal of maintaining two months of reserve as per City of Hercules Statement of Financial Policies and Procedures approved on December 15, 2015 (Appendix 5).

Final Budgeted Total Expenditures for Fiscal Year Ending June 30, 2017 (per FY 2017 Annual Report, Page 76):	\$15,703,225
One month reserve (8.33% of Total Budgeted Total Expenditures):	\$ 1,308,079
Goal: two months reserves (16.66% of Total Budgeted Expenditures):	\$ 2,616,157
Economic Uncertainty Reserve Available per Fiscal Neutrality Fund as of 6/30/17:	\$2,176,150

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Finance Commission Members:

J. Yamamoto, MBA, Dr., Atty., Chair

Stanley Tom, Vice Chair, CMA, CPA, PMP

Zania Harris

Lori Risby, CPA, CFP

Aida Torres, EA

Finance Commission Measure B and Measure C Sub-Committee:

Stanley Tom, CMA, CPA, PMP

Lori Risby, CPA, CFP

Report approved by the Finance Commission on xxxxxxxxxxxx.

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Appendices

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Appendix 1: Measure “O” Background

On July 24, 2012, Measure O, “Transactions and Use Tax Revenues” was passed by a majority vote of the City of Hercules and the Hercules City Council passed, approved and adopted Ordinance 470 amending the Hercules Municipal Code by establishing a four year temporary transactions and use tax of 0.50% to be administered by the State Board of Equalization.

Per Section 8.9.13 of Ordinance 470:

“A Citizen’s Oversight Committee is hereby established to oversee expenditures of the revenues received by the City from the sales and use taxes imposed pursuant to this chapter, and to ensure that tax revenues are spent by the City in a manner consistent with the voter approved measure adopting this chapter as well as any voter approved or council approved priorities adopted to implement the provisions of this chapter.”

Per Section 8-9.17 paragraph (a) of Ordinance 470:

“The Committee is charged with the following responsibilities:

- (1) Reviewing all appropriations of revenues received by the City from the sales and use taxes imposed pursuant to the provisions of this chapter to determine whether such funds are to be used as provided for in this chapter and the voter approved measure that adopted this chapter;
- (2) Reviewing the audit prepared by an independent auditor retained by the City to perform the City’s Comprehensive Annual Financial Report to determine whether such funds have been spent as provided for in this chapter and the voter approved measure; and
- (3) Prepare and issue the committee’s own annual report settling forth their findings in regard to the foregoing.”

On August 20, 2014, the Measure O Citizen’s Oversight Committee approved the Measure O Annual Report for the Fiscal Year 2013 (July 1, 2012 to June 30, 2013).

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Appendix 2: Measure “A” Background

On June 4, 2013, Measure A “Utility Users Tax Rate Revenues” was passed by a majority vote of the City of Hercules and the Hercules City Council passed, approved, and adopted Ordinance 475 modernizing Title 8, Chapter 8 of the Hercules Municipal Code with respect to the existing 6% Utility Users Tax, and establishing a five year temporary increase of 2% to the Utility Users Tax. The Ordinance established citizens’ oversight with the existing Citizens Finance Advisory Committee (which became the Citizen’s Finance Commission) appointed by the Hercules City Council.

Per Section 8-8.404 of Ordinance 475, “The Citizens Finance Advisory Committee, which is appointed by the City Council, shall meet at least monthly and review all revenue and expenditures under this Chapter in order to ensure that the funds are spent in accordance with the voter approved measure adopting this Chapter as well as any voter approved or council approved priorities adopted to implement the provisions of this Chapter. The City Manager shall appoint an ex-officio staff person to serve as secretary of the Committee and to ensure that meetings are held in a timely fashion.”

Per Section 8-8.406 of Ordinance 475:

“(a) The Committee is charged with the following responsibilities:

- (1) Reviewing all appropriations of revenues received by the City from the sales and use taxes imposed pursuant to the provisions of this Chapter to determine whether such funds are to be used as provided for in this Chapter and the voter approved measure that adopted this Chapter;
- (2) Reviewing the audit prepared by an independent auditor retained by the City to perform the City’s Comprehensive Annual Financial Report to determine whether such funds have been spent as provided for in this Chapter and the voter approved measure; and
- (3) Prepare and issue the committee’s own annual report settling forth their findings in regard to the foregoing.”

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Appendix 3: Measure “B” and Measure “C” Background

On July 28, 2015 the Hercules City Council unanimously approved placing the City of Hercules Financial Stability and Essential Services Continuation Measures, on the November 3, 2015 ballot to protect and maintain essential city services and fiscal stability.

On November 3, 2015, Measure B, “Transactions and Use Tax Revenues” was passed by a majority vote of the City of Hercules. Measure B extends indefinitely the Measure “O” half-cent per dollar local sales tax previously scheduled to end in 2016.

Measure B states, “Whereas the tax extension would be in effect until the Finance Commission finds, and the City Council approves by a 2/3 vote, that the City has achieved long term financial stability with adequate financial reserves.”

On November 3, 2015, Measure C “Utility Users Tax Rate Revenues” was passed by a majority vote of the City of Hercules. Measure C extends the Measure “A” 2 percent utility user’s tax that was previously scheduled to sunset in 2018, now scheduled to sunset in 2025.

Measure C states, “**Measure C** would extend the 2013 voter approved two percent (2%) UUT increase. If adopted, Measure C would make the eight percent (8%) total rate effective until January 1, 2025. The City Council could terminate the two percent (2%) increase at any time before January 1, 2025 and reduce the total UUT rate to six percent (76%) either on its own initiative or at the recommendation of the City’s Finance Commission upon a determination that the additional two percent (2%) increase provide for in **Measure C** is no longer necessary because the City has met its goal of achieving long term financial stability with adequate financial reserves.”

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Appendix 4: Finance Commission Background

On November 23, 2014, the Hercules City Council passed and adopted Ordinance 481 to amend the Hercules Municipal Code as follows:

1. Added Title 2, article 6, Section 202.601 through Section 2-2.609 to create the Finance Commission.
2. Amended Title 8, Chapter 8, Article 4, to provide for the Finance Commission oversight of Measure A, "Utility Users Tax Rate Revenues"
3. Amended Title 8, Chapter 8, Article 9, to provide for the Finance Commission oversight of Measure O, "Transactions and Use Tax Revenues"

Per Section 2.2.609 of Ordinance 481, "The Finance Commission shall be advisory to the City Council with no authority to direct staff and shall have the following duties:

- (a) Quarterly review of City's financial status; review and comment on audit reports; review and comment on the proposed budget; and review and comment on items of extraordinary financial impact.
- (b) Make recommendations to the City Council with respect to budget priorities.
- (c) Review and comment on the City's annual operating and capital improvement budgets
- (d) Advise the City Council on matters of policy and public interest related to the management of the City's finances and budget.
- (e) Serve as the Oversight Committee for Measure "A" including providing an annual report to ensure that Utility User Tax funds are spent in accordance with the Voter Approved Measure adopted in June, 2013.
- (f) Serve as the Oversight Committee for Measure "O", including providing an annual report, to ensure that the Sales Tax revenues approved by Hercules voters are spent in accordance with the Voter Approved Measure adopted in June 2012.
- (g) Take on any additional review and advisory functions assigned by the City Council by duly adopted Resolution."

On November 25, 2014, the Hercules City Council appointed the two members of the Measure O Citizens Oversight Committee and the three members of the Citizens Finance Committee to the Finance Commission.

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Appendix 5: City of Hercules Statement of Financial Policies and Principles

(Adopted December 15, 2015)

Establishing certain generalized principles governing the financial affairs of the City is desirable to guide both the financial management and financial planning for the City. The City of Hercules is accountable to its citizens, employees, and other stakeholders for the use of public funds and the best management of resources. These Financial Principles will provide City staff with guidance in preparing and submitting the annual budget for the City and in the preparation of financial forecasts. The adoption of certain financial policies is necessary and appropriate to implement the financial principles and to help ensure financial sustainability and to improve the City's credit worthiness and bond rating.

Financial Principles

- Adopt a balanced operating budget by June 30th of each year for the following fiscal year without using General Fund undesignated fund balances or reserves. The budget thus adopted shall include expenditures necessary to provide for the well-being and safety of the community subject to available revenues.
- Fees for services shall be updated annually to recover, as much as possible, the cost of providing the services and to allow for the impacts of inflation, with fees not exceeding the cost of providing the service. In some instances, the City Council may elect to not recover the full cost of providing the service and the City Council shall determine the appropriate cost recovery level of individual services.
- Revenues in excess of expenditures at the end of a fiscal year shall be applied on a priority basis to satisfy the general fund reserve requirements, capital projects reserves, capital equipment reserves, and liability reserves before being appropriated for other uses.
- Current year operating expenditures shall be funded by current year operating revenues.
- Manage the City's finances as to ensure repayment of debt and improvement in the City's bond rating in order to minimize future issuance and interest costs to the City.
- Meet all financial reporting requirements in a timely manner and ensure appropriate internal controls are in place to ensure financial accountability.

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Appendix 5: City of Hercules Statement of Financial Policies and Principles

General City Financial Policies

1. Employees are one of the most important assets of the City and should be compensated at an appropriate level and commensurately with the City's ability to pay.
2. Establish, and then maintain, a "minimum reserve" for economic uncertainties equal to one month's or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance with a goal of increasing that to two months or 16.66% of expenditures in the future.
3. The General fund reserve shall provide for meeting contingency needs, investment earnings, and shall serve as a cash flow reserve.
4. Provide for capital equipment replacement as necessary to achieve greater efficiency and effectiveness in the City's operations.
5. One time revenues shall be utilized for one-time expenditures or to enhance reserve funds as appropriate or necessary.
6. The City shall maintain, replace, and improve its infrastructure and the City shall set aside a reasonable and prudent amount of General Fund monies for capital projects including the repair of various facilities as part of its annual budget process to the greatest extent possible.

Revenue & Expenditure Policies

- Realistic and prudent estimates of revenues shall be used to maintain financial flexibility.
- Revenue raising alternatives shall be explored as necessary and the City shall pursue grants available to local government.
- Programs funded through user fees shall be self-supporting to the greatest extent possible or at a level proscribed by the City Council.
- Full recovery of overhead and internal services from grant and special or enterprise funds shall be pursued to the greatest extent possible and as permitted by the restrictions associated with each fund.

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Appendix 5: City of Hercules Statement of Financial Policies and Principles

Special Revenue, Enterprise, and Internal Service Fund Policies

- The City shall abide by applicable rules and regulations pertaining to the expenditures of special revenue funds as required by each funding source.
- Enterprise activities shall be programmed to generate sufficient revenues to support the enterprise's operations including overhead and internal services, debt service requirements, and current and future capital needs.
- Special Revenue and Enterprise funds shall adhere to all other applicable fiscal policies of the City.
- Internal Service funds shall be established as appropriate to ensure cost recovery on a fair and equitable basis.
- Transfers to the General fund from other funds for overhead costs shall be reviewed annually and conform to the Federal Office of Management & Budget A-97 Guidelines.

Debt Policies

- Debt shall only be incurred for capital improvement projects and only if the project cannot be funded by recurring or one-time revenues.
- Proceeds from long-term debt shall not be used for current on-going expenditures.
- Short-term borrowing shall not be used for operating expenditures unless it is a Tax & Revenue anticipation Note or other short-term cash flow borrowing and shall be limited to repayment in the same fiscal year.
- The use of the City's General Fund as security for debt issues should be limited to the greatest extent possible to capital projects which serve the general benefit for the City.

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Appendix 5: City of Hercules Statement of Financial Policies and Principles

Forecasting Policies

- The City shall develop and maintain a five to ten year Financial Forecast which shall be updated two times each year with any unexpected changes in economic conditions or other circumstances prompting more frequent updates.
- The Financial Forecast should recognize the effects of economic cycles and shall differentiate between one-time revenues associated with one time economic activities and revenues resulting from base economic growth.
- Financial Forecasts shall identify the assumptions used in their preparation and the risks associated with those assumptions.
- Revenue and expenditure estimates should be prepared on a realistic basis with a target of +/- 2 percent variance from the estimate for revenues and a +/- 1 percent variance for expenditures.
- On-going revenue increases based upon site specific development shall be incorporated using a realistic estimation of timing and shall not exceed the midpoint of the range of estimated revenues.