

# Financial Plan

## Introduction

This section depicts the City's multi-year financial plan, strategies and policies used to manage the City's General Fund for the next four fiscal-year period. This is the fourth year for the City's financial planning process. On April 3, 2007, the City Council held a public study session to discuss parameters surrounding the foundation of establishing a multi-year Financial Plan Policy.

The financial plan for the General Fund contains:

1. **Summary:** A summary of the major issues occurring in the fund.
2. **Fund Structure:** A description of the fund's purpose, including major services to be financed, major sources of revenues and major sources of expenditures. The General Fund is reported on a modified accrual basis. This system recognizes revenue received in the reporting period and expenditures, plus un-liquidated obligations during the same period. It is a conservative reporting method which ensures resources are available to pay all outstanding commitments.
3. **Projected Year End Budget Assumptions:** A plan for revenues and expenditures in the current Fiscal Year.
4. **Proposed Fiscal Year Budget Assumptions:** A plan for revenues and expenditures in the upcoming Fiscal Year.
5. **Multi-Year Revenue and Expenditure Projections:** The multi year plan is designed to provide information regarding the financial ramifications of policy decisions. The financial plan is projected through Fiscal Year 2013-2014.

## Financial Policies and Strategies

The financial and resource allocation policies, which are intended to guide the City Council's discussions, have been combined in this section. Brief summaries, for the City's General Fund, are found in this section. In Fiscal Year 2006-2007, City Council accepted the first multi-year financial plan and the proposed policies. As City Council continues discussing, developing, and adopting the policies and detailed strategies, they will be incorporated in a *City of East Palo Alto Policy Guidebook*. (A summary of the policies are listed in this section).

## Summary: The City of East Palo Alto Multi-Year Financial Planning Process

For nearly two decades of its existence, the City experienced expenditures that consistently outpaced its available revenues. Historically, at the conclusion of a given fiscal year, an unstructured loan repayment, from the Redevelopment Agency (RDA) Fund was called upon to cover the structural General Fund deficit. Fortunately, the RDA Fund has had resources to repay the loan, however, it cannot be assumed that those funds will always be able to randomly cover the General Fund deficit on a long-term basis; thus, requiring methods and procedures to ensure a balance between forecasted expenditures and available revenues.

During Fiscal Year 2006-2007, City Council agreed to proceed with developing a multi-year financial planning process in order to 1) stabilize the workforce, 2) insure consistent and continued quality services to the residents of East Palo

Alto and 3) avoid a recurring structural deficit going forward. The FY 2010-2011 Adopted Budget marks the fourth continuous year that the City Council would support the multi-year financial planning process in order to proactively plan for the management of its resources and to address financial challenges in a methodical fashion. After many years of confronting a multi-million dollar structural deficit, layoffs and/ or hiring freezes and general financial instability, this new approach to financial planning is recommended for continuation. First and foremost, that financial planning process calls for a stable level of basic services. To achieve that stability in the long-term, the policies surrounding the cash reserve will be essential.

The plan is simple and provides lasting results and benefits to the residents of the City. It calls for adding cash to the reserve in good revenue years and reducing the reserves (thereby minimizing service level reductions) in the more challenging years.

It is anticipated that a multi-year financial planning process will work well for many years to come. Furthermore, it is projected that the City would have a stable level of services, avoid or minimize layoffs, during the periods the economy is not well, and the process would increase the opportunity for less erratic infrastructure investments.

**The Fund Structure**

The General Fund is the source of funds which provide general purpose government services to the citizens. While some services are provided by Special Revenue Funds, if such revenues fall short of expenses, the services could generally be supported by General Fund dollars if appropriate and necessary.

**Major Services**

The major services financed by the General Fund include:

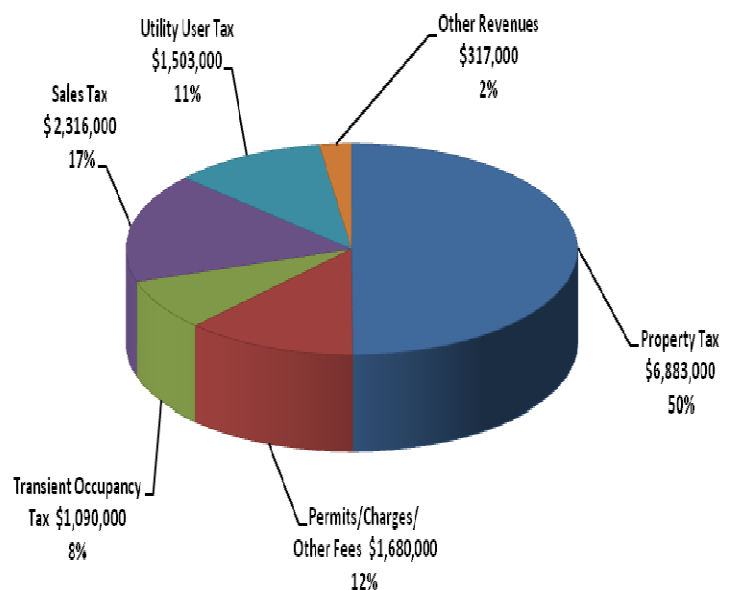
- a. Public Safety services including community policing, criminal investigations, dispatch services, code enforcement and animal control.
- b. Maintenance of streets, public right-of-way, traffic and street signage.
- c. Building Inspection, engineering and planning services.
- d. Parks, landscaping and median maintenance.
- e. General government services.
- f. Capital infrastructure improvements.

**Major Sources**

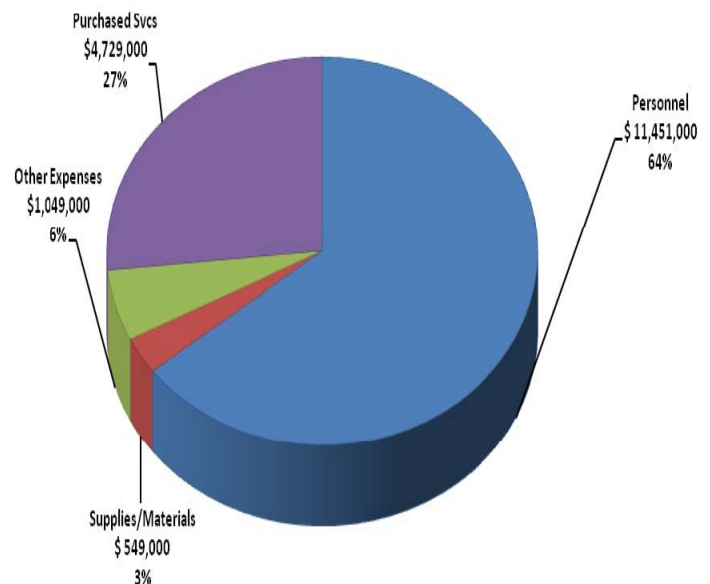
The major revenue sources comprising the General Fund and the percent each are projected to contribute in Fiscal Year 2010-2011 are represented below. Also shown below are the projected major expenditure categories and the percent projected to be incurred in each category during Fiscal 2010-2011.

**The Fiscal Year 2010-2011 Adopted Budget**

**Revenues Total \$13,789,000**



**Expenditures Total \$17,778,000**



**The 2009-2010 through 2013 – 2014 Financial Goals**

Ideally, each Fiscal Year of the Financial Plan, it is expected to have growth of revenues outpace the growth of expenditures. On the other hand, major revenues are generally reflective of the economy. For that reason, they are not as manageable as expenditures, which could be maintained below inflation. City Councils approved financial policies are intended to provide guidance on how to establish and use the proposed Cash Reserve. In Fiscal Year 2006-2007, staff presented a new policy, for Council consideration. The policy was introduced as the *Managing the Budget Policy* which was intended to establish the parameters for the budget development. The major components include:

1. Personnel costs will be fully supported by the two local taxes: sales and property tax. This places an automatic maximum amount that can be spent to pay for labor costs.
2. Overtime costs will not exceed 5% of total personnel costs. In this, overtime will rise with increased wages, not by increased activities.
3. Medical Insurance benefit costs will not exceed 7% of total personnel costs. Over the past several years, City Council has taken major steps toward establishing fair and equitable contributions to the health benefits for employees in all employee groups.

This policy statement also continues to identify public safety as one of the top priorities and is reflective in the City Council Strategic Plan.

It is widely acknowledged that the City has not had the resources in the General Fund to make the types of investments it would like to have made. It is also generally recognized that City General Fund resources have not been the primary funding source for new initiatives. A focus of any new ventures will be to find partners to help finance such proposed initiatives.

The most significant policy objective is to ensure that at the end of each fiscal year, cash is added to the reserve until the target minimum level is achieved. For example, it is proposed that the goal would be to ensure that an unrestricted unallocated cash reserve equivalent to 15% of operating costs is available at the end of each fiscal year. Implementing this policy would allow the City to prepare, implement and manage an action plan in the event the City could not meet its obligations within its available resources. The

Council would then be in a position to determine the appropriateness of setting aside a portion of the balance to a restricted reserve to address future, more significant challenges that may be confronting the City.

With these guidelines, the method to balance the budget is in place. There are four major objectives the plan is proposed to meet:

1. It will balance the budget through Fiscal Year 2013-2014 and in compliance with the minimum cash reserve policy;
2. It will cover the total cost of personnel with local taxes;
3. It will control the growth of expenditures since it is much more difficult to impact the growth of revenues; and
4. It will provide enough time to phase in any adjustments in services so that there would be no unexpected service disruptions or personnel layoffs.

Utilization of these policies, together with concerted efforts at expenditure control, will provide some ability to better plan for future service levels rather than relying entirely on the luck of the economy. The normal overall expenditure growth should not exceed that of the Consumer Price Index (CPI-W) for the San Francisco, Oakland, and San Jose Metropolitan Area. To achieve this objective, City Council may want to consider establishing a cap on expenditure growth as a goal, which could assist in its efforts to provide cash balance at the end of each fiscal year of the Plan.

Limiting expenditure growth throughout the financial plan period is expected to achieve the range of objectives identified in the financial plan, support the proposed policies to manage the budget and balance the budget through Fiscal Year 2013-2014. Most importantly, it is expected to stabilize our services to the residents of East Palo Alto.

Another valuable purpose of a multi-year financial plan is to review, in a snapshot, the organizations financial position. It is a planning tool, which is intended to allow the City Council to make more informed decisions and to take the necessary actions, early enough, to avoid crisis situations.

### FY 2009-2010 to FY 2013-2014 Financial Goals

(All numbers shown in millions)

Major Revenue Categories	FY 2009-10 Amended*	FY 2010-11 Adopted*	% Change	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
Sales Tax	\$2.357	\$2.316	-1.7%	\$2.316	\$2.316	\$2.316
Property Tax	\$7.428	\$6.883	-7.3%	\$6.883	\$6.883	\$6.883
Permits, Fees & Charges for Services	\$1.766	\$1.680	-4.9%	\$1.680	\$1.680	\$1.680
Utility User Tax	\$1.488	\$1.503	1.0%	\$1.518	\$1.533	\$1.549
Transient Occupancy Tax	\$0.500	\$1.090	118.0%	\$1.375	\$1.799	\$1.835
Other Revenues	\$0.365	\$0.317	-13.2%	\$0.172	\$0.176	\$0.176
<b>Total Operating Revenues</b>	<b>\$13.904</b>	<b>\$13.789</b>	<b>-0.8%</b>	<b>\$13.944</b>	<b>\$14.387</b>	<b>\$14.438</b>
<b>Other Adjustments</b>						
RDA Repayment	\$1.275	\$0.000	-100.0%	\$0.600	\$0.600	\$0.600
<b>Total Adjusted Revenues</b>	<b>\$15.179</b>	<b>\$13.789</b>	<b>-9.2%</b>	<b>\$14.544</b>	<b>\$14.987</b>	<b>\$15.038</b>

NOTE: Numbers may not add due to rounding

Major Expenditure Categories	FY 2009-10 Amended*	FY 2010-11 Adopted *	% Change	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
Personnel Costs	\$11.233	\$ 11.451	1.9%	\$ 11.909	\$ 12.386	\$ 12.881
Purchased Services	\$4.976	\$ 4.729	-5.0%	\$ 4.871	\$ 5.018	\$ 5.168
Supplies and Materials	\$0.508	\$ 0.549	8.1%	\$ 0.565	\$ 0.582	\$ 0.600
Other Expenses	\$0.788	\$ 1.049	33.1%	\$ 0.161	\$ 0.166	\$ 0.170
<b>Total Operating Expenditures</b>	<b>\$17.505</b>	<b>\$ 17.778</b>	<b>1.6%</b>	<b>\$ 17.507</b>	<b>\$ 18.151</b>	<b>\$ 18.819</b>
<b>Other Adjustments</b>						
Overhead Allocation to Other Funds	(1.391)	(1.481)	6.5%	\$ (1.525)	\$ (1.571)	\$ (1.618)
Encumbrances and Restricted	\$ -	\$ 0.408		\$ -	\$ -	\$ -
<b>Total Adjusted Expenditures</b>	<b>\$16.114</b>	<b>\$16.705</b>	<b>3.7%</b>	<b>\$15.981</b>	<b>\$16.580</b>	<b>\$17.201</b>

<b>Total Operating Income/(Loss)</b>	<b>(\$3.601)</b>	<b>\$ (3.989)</b>	<b>-</b>	<b>\$ (3.562)</b>	<b>\$ (3.764)</b>	<b>\$ (4.381)</b>
<b>Total Adjusted Income/(Loss)</b>	<b>(\$0.935)</b>	<b>\$ (2.916)</b>		<b>\$ (1.437)</b>	<b>\$ (1.593)</b>	<b>\$ (2.163)</b>
<b>Beg. Unrestricted GF Cash Balance</b>	<b>\$4.756</b>	<b>\$ 3.568</b>		<b>\$ 0.651</b>	<b>\$ (0.786)</b>	<b>\$ (2.379)</b>
<b>Ending Unrestricted GF Cash Balance</b>	<b>\$3.568</b>	<b>\$ 0.651</b>		<b>\$ (0.786)</b>	<b>\$ (2.379)</b>	<b>\$ (4.541)</b>
<b>Current Restricted GF Cash Reserve</b>	<b>\$1.591</b>	<b>\$ 2.000</b>	<b>-</b>	<b>\$ 2.000</b>	<b>\$ 2.000</b>	<b>\$ 2.000</b>
<b>15% Targeted GF Cash Reserve</b>	<b>\$2.626</b>	<b>\$ 2.667</b>		<b>\$ 2.626</b>	<b>\$ 2.723</b>	<b>\$ 2.823</b>

NOTE: Numbers may not add due to rounding.

**NOTES:**

1. Based on the expenditure history, the following assumptions are made in the various categories;
  - a) Personnel Costs = 98% of 10-11 budget (\$11.451M)
  - b) Purchased Services = 98% of 10-11 budget (\$4.729M)
  - c) Supplies and Materials = 98% of 10-11 budget (\$0.549M)
  - d) Other Expenses = 98% of 10-11 budget (\$1.049M)
2. **Operating Income/(Loss)** (Yearly Balance) is the difference between the total revenues and total Expenditures
3. **Unrestricted GF Cash Balance** Funds in the General Fund available for general government use.
4. **Restricted General Fund Reserve** ("Rainy Day Fund") Reserve established and used only by Policy.
5. **Minimum General Fund Cash Reserve Policy** reflects the 15% Policy Goal of Restricted GF Cash Reserve.

## Revenue Assumptions

1. **Sales Tax** - is levied on goods and services at the point-of-sale. Currently, the sales tax 8.25% of which approximately 1% is returned to the City for those sales that take place in East Palo Alto. This is the second largest revenue source to the City; and it is projected to experience slight decline of 1.7% during FY 2010-2011, and will remain flat during the life of the plan.
2. **Property Tax** - is collected by the County of San Mateo County Assessor and is apportioned to various agencies. Homes, businesses and other taxable real and personal property are subject to property tax of 1% of the assessed value. In FY 2004-2005 a new category "property tax in lieu of vehicle license fee" was added as a result of the triple flip, whereby a portion of the 2% vehicle license fee (VLF) was swapped for property tax. This is the largest revenue source received by the City. This revenue source is projected to decrease by 7.3% in FY 2010-2011 primarily due to adjustments and appeals to property valuation occurring at the County. The balance of the plan assumes no growth due to the current housing crisis that is affecting the economy on a national level.
3. **Permits, Fees & Charges for Services** - are collected for staff services, licenses and permits issued. As a result of the downturn in development activity in both the housing and construction markets, this revenue source is projected to decrease 4.9%. Due to the decline of the economy, the out years projects no growth.
4. **Utility User's Tax** - In November 2005, the voters overwhelmingly passed the ballot initiative to continue the Utility Tax. This revenue source is expected to increase by 1.0%. The plan assumes that the increase in this commodity could be impacted by the current economic conditions as consumers are unable to make payments and/or modifications to some of these services are made by consumers.
5. **Transient Occupancy Tax** - This source of revenue comes from the taxes levied on overnight hotel visitors. A settlement resulted in the city receiving a portion of the tax, beginning in January 2007. Each year thereafter, the receipt in this category shall remain at \$500K until FY 2010-2011. Upon receipt of these revenues, a portion is

committed for programs focused on children, youth, seniors and families. The plan reflects flat receipts until January 2011 when the negotiated agreement terminates and the full range of collected Transient Occupancy Tax (TOT) will be paid to the City; as a result this revenue is anticipated to increase by 118% in FY2010-11 and will continue to increase in the out years.

6. **Other Revenues** - These sources of fund include reimbursements from other governmental agencies, earned interest on investments, and contributions. This source of revenue is projected to decrease 13.2% in FY 2010-2011 due to a reduction in one-time revenue receipts and is expected to grow in FY2011-2012 and to grow at a rate of 2 % over the life of the plan.

## Expenditure Assumptions

1. **Personnel Costs** - This is the largest cost center the City has; and, it represents approximately 64% of the City's operating expenditures. The FY 2010-2011 is projected to increase 1.9%. Based on previous expense patterns, the financial plan anticipates that 98% (\$11.451 million) of the total budgeted amount of (\$11.685 million) will be spent during the year. The out years project a 4% increase in this category based on approved Memorandums of Understanding between the City and the Employee Unions.
2. **Purchased Services** - The costs associated with contract professional services are anticipated to reduce by 5.0% during FY 2010-2011, and each year of the plan thereafter will increase no more than 3%.
3. **Supplies and Materials** - This category reflects supplies, fuel, maintenance contracts, etc. It is expected to increase by 8% in FY 2010-2011 due to much needed equipment replacement in the Maintenance division; and increase no more than 3% in out years.
4. **Other Expenditures** - This category reflects transfer outs and capital replacement fund purchases of the General Fund. Transfers are used to move funds to other operating funds in order to finance the operations of another fund or to reimburse the other fund for certain services provided to the General Fund. It is expected that this category will grow at a rate of 3% in the out years.

**5. Other Adjustments** - This category includes Overhead Allocation to other funds and a loan transfer to Ravenswood.

- a. Overhead Allocation reflects reductions to the General Fund from a variety of funding sources such as grants, special revenue funds, and the Redevelopment Agency funds. These funds are charges for services being provided by City staff whose costs are budgeted in the General Fund. These allocations offset the total expenditures expected in the General Fund. This category is expected to increase by 6.5% in FY10-11 and is expected to grow 3% thereafter.
- b. The main reason for the decline in this category is the result of the elimination of a loan transfer to Ravenswood Redevelopment Project Area. Given the fiscal merger of all three redevelopment project areas that occurred in FY2010-11, the other two project areas can provide financial support to Ravenswood as this project area is substantially undeveloped and does not generate enough tax increment to cover its operating expenses. Therefore, Ravenswood no longer requires an advance from the General Fund to cover its operating deficits.

**Operating Income (Loss)**

The annual balance each year is simply calculated by subtracting total operating expenditures from total operating revenue sources. These numbers represents the operating revenues/expenditures of the City's General Fund before any adjustments. In FY2010-11, the General Fund projected operating revenue is \$13.789 million and expenditure is \$17.778; leaving an operating deficit of \$3.989 million. This operating deficit of \$3.989 million is then offset by adjustments. Without these adjustments, and the use of unrestricted cash balances, the General Fund projected revenue would not be enough to support the projected operating expenses. In good years, any balance, or a portion thereof, may be added to the cash reserve.

**Adjusted Operating Income (Loss)**

This balance represents the operating income/ (loss) after adjustments. In FY2010-11, the operating revenue remains at \$13.789 million, as there are no proposed transfers of payment from the RDA for loss TOT from the University Circle Redevelopment project area given the projected fund balance in this account.

The FY2010-11 operating expenditure of \$17.778 million was decreased by \$1.481 million in allocations to other funds and increased by \$.408 transfer to reserves; leaving an adjusted expenditure of \$16.705 million. As a result of these adjustments, the General Fund has a projected operating loss of \$2.916 million; however, a projected unreserved beginning fund balance \$3.568 million will be able to cover this loss. In future years, there continues to be an operating deficit if no change occurs with revenue and expenditures continue to grow.

**Unrestricted General Fund Cash Balance**

This amount reflects in the fund balance and is available for spending or could be added to the cash reserves. The FY10-11 projects an ending unrestricted fund balance of \$0.651 million after transfers to reserve mentioned above.

**Restricted General Fund Cash Reserve**

The section of the Tables depicts the amount projected in the Cash Reserve at the end of each fiscal year. For the purposes of this table, a portion or all of the yearly balances is added to the cash reserve. However, Council could elect more or less. In FY2010-11, the proposed set aside in the budget calls for an additional \$0.408 to set-aside; totaling \$2.000 million in the Cash Reserve, this amount represents approximately 12.0% of the FY10-11 Operating expenditures.

**Minimum General Fund Cash Reserve Policy**

This reflects the amount of reserve that would be necessary to ensure the stability of services for a minimum period time. The amount is derived from taking approximately 15% of the total Operating Budget.

**Vulnerabilities to the FY 2009-2010 through FY 2012-2013**

The financial plan projections are based on the best information available at the time the plan is developed. However, this list is not exhaustive, as there may be unknown vulnerabilities to this plan. Those known vulnerabilities which could negatively affect the projections are outlined below:

- Unplanned expenditures such as contributions, property purchases, and new initiatives requiring General Fund support.
- Results of labor negotiations exceeding parameters.
- Excessive increases in medical insurance and/or other benefit costs.

## FY 2010-2011 Adopted Budget

- Unfunded mandates from State and/or Federal agencies.
- Unanticipated delays in developing the Ravenswood Business District (RBD).
- Lawsuit and settlements exceeding available funds.
- The administration will work diligently to manage revenues and expenditures according to City Council direction; however, there may be events which occur which are beyond our control. As always, the City could experience unknown disasters that could negatively impact this plan, i.e. natural events or disasters.
- Potential loss of Utility User Tax revenues.
- Reduction in Property Tax as a result of Property Owner Appeals being approved by the County.
- Unfunded liabilities and other Risk Management-related cost excesses.
- Ability for the Redevelopment Agency to repay its debt it owes the General Fund.
- Unanticipated Business Closures resulting in loss of sales tax revenues.
- State Budget challenges and its impact on local agencies, including redevelopment agencies.
- Delayed payments from the State such as Gas tax revenues and grant funded programs.
- New funding obligations resulting from new or renegotiated service levels from other agencies that provide services to the city (e.g. flood protection, water supplies, and refuse collection/disposal).
- Uncontrolled growth in the cost of providing municipal services from internal service providers as forecasted in Table 1 of the Plan.

## **Conclusion**

- Any unfunded occurrence may require the use of the cash reserve to balance the budget, although the City Council direction to balance the budget will remain a top priority.
- Unless actions are taken, the minimum cash reserve will be below the proposed policy level.

## Financial Plan

- The Plan assumes a declining economy, which reflects either a reduction or flattening of revenue sources; while expenditures continue to rise. The plan anticipates that expenditures will continue to outpace revenues and anticipates an operating deficit beginning in FY2011-2012 to the end of the plan.
- Defining what constitutes the “right size” of the organization is required if we are to meet our financial plan goals.
- All Essential/Non-Essential and Mandated service levels need to be reviewed on an ongoing basis.

# Financial Policies

## Introduction

The financial plan policies for City Council consideration and deliberation are as follows. These policies are intended to set forth the framework for the overall fiscal management of the City. Operating independently of changing circumstances and conditions, this policy assists the City Council's decision-making process; and, guides Administration's implementation of the policies. These policies also provide guidelines for evaluating both current activities and proposals for future programs.

The following policies establish long-standing principles, traditions and best practices which are intended to guide the City and maintain financial stability over four years. These policies will be reviewed annually.

## **Managing the Budget Policies**

*(Approved as a part of the Adopted Budget)*

1. The City will establish and maintain at least the minimum cash reserve levels established by policy (15% of operating costs).
2. To ensure that the two largest revenue sources shall cover the largest expenditure item. Personnel costs shall not exceed actual receipts from sales and property taxes.
3. Medical insurance shall continue to be a shared responsibility between the City and its employees and expenditures shall be contained to no more than 7% of personnel costs. Overtime expenditures shall be no more than 5% of personnel costs. Total worker's compensation expenditures shall not increase as a percent of payroll.
4. The City Council shall allocate resources to ensure public safety. As long as this policy is necessary, the resulting impact on the budget will mean other services areas may be reduced.
5. No new or expanded services shall be implemented without implementing trade-offs of expenses or revenue at the same time. This applies to personnel, equipment, and any other peripheral expense associated with the service.
6. The City shall aggressively seek regional, state and federal partners to support the public safety efforts, and major discretionary capital projects which remain unfunded. Co-production of services with our citizens, the business community, and other local jurisdictions shall be encouraged.
7. The City shall update and maintain a scheduled level of maintenance and replacement of its infrastructure and fleet. Expansions to the fleet must be offset through reductions in other equipment and/or costs.
8. The City shall support investments which reduce future operating costs.

## **Revenue Policies**

*(Approved as a part of the Adopted Budget)*

1. The City will make every attempt to maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.

2. The City will attempt to obtain additional major revenue sources as a way of ensuring a balanced budget.
3. The City will establish all user-charges and fees at a level related to the full cost of providing the service (operating, direct, indirect, and capital).
4. The City will review fees / charges annually and will design or modify revenue systems to include provisions that automatically allow charges to grow at a rate that keeps pace with the cost of providing the service.
5. The City will consider market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees, and charges.

**Cash Management/Investment Policies**

*(Adopted by Resolution #2893 May 5, 2009)*

1. The City will deposit all funds no later than the next business day from receipt of funds.
2. Investments of City funds will emphasize preservation of principal; the yield objective will be to match or exceed an index weighted 75% for the yield of two-year treasury notes and 25% for the yield of six-month national Certificates of Deposit less 30 basis points.
3. The City will collect revenues aggressively, including past due bills of any type.

**Debt Policies**

*(Adopted by Resolution #FA2005-01 July 19, 2005)*

1. The City will issue bonds for capital improvements and moral obligations.
2. The City will not issue notes to finance operating deficits.
3. The City will publish and distribute an official statement for each bond and note issued.
4. General obligation debt will not be used for enterprise activities.
5. The City will ensure that it sets aside the appropriate amount of debt obligation for the purpose of repayments.

**Reserve Policies**

*(Approved as a part of the Adopted Budget)*

1. The City will establish and maintain a reserve in the General Fund which represents 15% of the funds expenditures.
2. The City will maintain a revenue reserve in the Rent Stabilization Fund which represents 25% of the Fund expenditures.

**Accounting, Auditing and Financial Reporting Policies**

*(Adopted by Resolution #2634, November 8, 2006)*

1. An independent audit shall be performed annually.
2. The City will produce annual financial reports in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GAAB).
3. The City will maintain a strong internal audit capability.