

City of Modesto Financial Policies

1. Budget Adoption Level: The city wide, legally adopted level for the budget of any program is by department at the Fund level.
2. General Fund Reserve: The Council has established the unappropriated reserve's minimum level to be 8% of the current appropriations for operating expenditures and operating transfers-out.
3. Forecasting Model: For the General, Enterprise, Internal Service and Capital Project and other major funds the Finance Department will maintain either a 5 or 10-year financial forecasting model to assess the City's ability to respond to changes in anticipated revenue levels, capital improvement program needs and changes proposed in operating costs. (The use of a 5 or 10-year model will depend on the conditions that apply to each fund.)
4. Enterprise Funds and other Non-General Fund Operations: These activities should be self-supporting and should maintain reserve levels that are adequate to protect against fluctuations in revenue and expenditure levels. Activities that deviate from this requirement shall be identified for the City Council annually at the time of budget adoption. Exempt from this requirement are those funds that account solely for grant funds.
5. Inter-fund Loans and Loans to Component Units: Loans between funds and loans to other component units of the city should be considered in light of a multi-year business plan that demonstrates a reasonable ability to repay the loan. All inter-fund loans and loans to component units, either existing or proposed, shall be identified for the City Council at the time of budget adoption. Generally, inter-fund loans and loans to component units shall be established with a repayment deadline that reflects the earliest feasible opportunity for repayment of the loan. Interest rates charged on the loan shall be based on the actual rate of return earned by the City's investment portfolio during the 12-month period immediately preceding a payment date.
 - a. Note that the terms and conditions for existing loans between the City and the former Redevelopment Agency are governed by one or more separate resolutions adopted at the time the loans were approved and are subject to the laws put into place by recent redevelopment dissolution legislation passed by the State of California.
6. Interest Allocation: Interest shall be allocated quarterly to all funds based on their average monthly balances during each quarter.
7. Direct Charges between Funds: Costs charged between funds such as force-account labor and other direct costs shall be charged on the basis of actual cost and not on the budgeted amount, unless a separate contract exists between the

managers of the two programs allowing the use of the budgeted amount as the basis for the charge.

8. Inter-fund Transfers: Unless direction is given at the time an inter-fund transfer is approved that the amount to be transferred between funds is not subject to adjustment based on a share of cost formula, all inter-fund transfers shall be based upon the sending fund's pro rata share of any project costs or other obligation that is the basis for the transfer. Therefore, a reconciliation of the share of costs allocable to the fund(s) from which resources are to be transferred shall be performed prior to the year-end closing of the city's financial records and shall become the basis for determining the actual amount of any resources to be transferred. It is the intent of this policy that any transfers designed to provide a subsidy to the operations of another fund shall not exceed the amount needed to provide sufficient resources to make revenues equal expenditures unless other direction is provided by the City Council.

All inter-fund transfers and their purpose shall be identified to the Council annually, at the time of the budget adoption.

9. Multi-year Appropriations: Appropriations for certain grants and on-going Capital Improvement Program projects that were authorized in previous years and that are not fully expended shall be deemed valid until revoked. Appropriations related to certain developer-funded expenditures may also be treated as multi-year appropriations.
10. Fund Replacement Reserves: In order to provide future resources for the replacement or repair of depreciable assets, each fund shall establish a list of depreciable assets, including useful lives and replacement costs that will determine the amount to be set-aside annually to allow the timely replacement or repair of these assets. Each program manager shall also establish a plan for funding the reserve and shall disclose the adequacy of the reserve level annually to the City Council as part of the annual budget adoption process.
11. Budget Adjustment Authority: The authority to approve any budget adjustment in the amount of \$25,000 or less is delegated to the Director of Finance. The authority to approve any budget adjustment between \$25,000 and \$50,000 is delegated to the City Manager. Authority for any budget adjustment over \$50,000 is delegated to the parties shown below:
 - a. City Council
 - i. Appropriation of undesignated reserves
 - ii. Appropriation of new revenues
 1. Does not include Developer Payments
 - iii. Budgeting inter-fund transfers
 1. Does not include adjustments to budgeted transfers where the intent is to subsidize an enterprise operation as shown in

- item (v) under the City Manager's budget adjustment authority
- iv. Creation of inter-fund loans
- v. Creation of, or increase in, any multi-year appropriation except for the allocation of interest
- vi. Addition of permanent staff positions
- vii. Appropriation of payments for new indebtedness including operating leases
- viii. All other budgetary actions not delegated to another official

City Manager

- i. Transfer appropriations between departments within a fund
- ii. Changing any capital equipment appropriation
- iii. Appropriate reserves for litigation on a case-by-case basis
- iv. Adjust operating program appropriation levels at his/her discretion to maintain the required 8% reserve level and any reserve levels for non-GF funds
- v. Adjustments to Inter-fund transfers intended to balance enterprise fund operations where the cumulative total of any adjustment does not increase the original City Council approved appropriation by more than \$50,000
- vi. Appropriate Developer Payments not previously budgeted
 - 1. Annexation Deposits
 - 2. Special District Formation Deposits
 - 3. Developer Deposits to be recognized as revenue

b. Director of Finance

- i. Appropriate unbudgeted grant interest
- ii. Revise the allocation of Internal Service Fund charges between departments, provided that the total allocated amount does not increase (any such changes to the allocation shall not result in an increase or decrease to the total amount of discretionary appropriations provided to the affected departments)
- iii. Changing any CIP line item appropriation
- iv. Revoke multi-year appropriations
- v. Close Capital Improvement Program or Non-Capital projects
- vi. Make technical budget corrections to implement the intent of Council-approved actions and resolutions
- vii. Transfer fiscal appropriations between sub-funds of a single fund (except where this changes appropriation amounts for temporary agency labor and/or capital equipment purchases over \$5,000)

c. Department Director

- i. Transfer appropriations within a department, within a single fund (excludes appropriations related to capital equipment, capital improvement program)
- ii. Acting as a designee of the City Manager, the Parks, Recreation, & Neighborhoods Director shall be authorized to appropriate private donations or grants made to the Fund Development Program of the Parks, Recreation, & Neighborhoods Department for specified purposes up to \$25,000

12. Fund Balance Information Requirements: The requirements of GASB Statement No. 54 are intended to enhance the usefulness, including the understandability, of fund balance information, in the financial statements. The City will spend the most restricted dollars before less restricted, given equal eligibility, in the following order:

Non-Spendable – if funds become spendable (inventories, prepaid amounts)
Restricted (grants, bond proceeds)
Committed (capital acquisitions, pending projects)
Assigned (purchase orders, encumbrances)
Unassigned (residual fund balance after deducting the other fund balance categories)