

## **CITY OF ARCATA**

### **DESCRIPTION OF COMMUNITY**

The City of Arcata is located 275 miles north of San Francisco. It is situated in the northern coast region of California at the western mid-point of Humboldt County. The City is framed by the Pacific Ocean on the west, forested hills on the east, the Mad River on the North, and Humboldt Bay to the south.

The City of Arcata was incorporated as the Town of Union in 1858. It was renamed “Arcata” in 1860. Arcata reincorporated as a general law city on May 4, 1903, under the Municipal Corporation Act of the State of California. The original township (including surrounding area) had a population of 553 persons. By 2017, the City has grown to an estimated population of approximately 17,230.

The City of Arcata has developed its unique character by integrating its many diverse resources. The result is a blend of traditional and alternative life styles. The City’s innovations have included constructing the first operating railroad in the state of California, pioneering a state-of-the-art aquaculture wastewater treatment system incorporating the Arcata Marsh ponds, and establishing the first community owned forest in the United States. The City enjoys a desirable quality of life including a small town atmosphere, reasonable housing prices, light traffic, and large expanses of rural open space.

The City of Arcata has a council-manager form of government. The City Council is the legislative body of the city and is empowered by the charter to make city policy. Citizens elect five City Council members at large; three in one even year and two in the next even year. Terms last for four years. All Council members have equal powers in decision-making. The Council members elect the Mayor and Vice Mayor.

The City Council appoints a City Manager to act as chief executive officer of the City. The City Manager is responsible to the Council for the performance of the entire City government organization. The City Manager also performs a number of other functions including City Clerk, Purchasing Agent, Labor Relations Officer, Risk Manager, Contract Administrator and Public Information Agent.

The City of Arcata presently has six operating departments: City Manager, Finance, Police, Community Development, Public Works, and Environmental Services. Each department has a director who is responsible to the City Manager.

### **BUDGET PROCESS AND POLICIES**

With the adoption of the annual budget, the City Council recognizes the appropriations for the many operating activities and capital budgets are based upon estimates of municipal needs for the fiscal year. In order to establish reasonable flexibility in the administration of the budget, the following policies have been adopted. These policies are intended to provide the authority necessary for the City Manager to administer the budget during the course of the fiscal year in light of varying conditions which may occur.

## **Budget process**

The budget process begins with meetings of key budget team members to informally discuss underlying fiscal policies, goals and objectives of the Council, personal service proposals, material changes in anticipated revenue/income and expenditures/expenses. The process continues with the distribution of a budget request package to all department heads. This package includes a brief message from the Finance Director along with general instructions for completing the budget template documents which when completed include proposed expenditures, capital outlays, departmental descriptions, activity accomplishments and future objectives, and other budget data.

Departmental requests are consolidated and the budget team composed of the City Manager and Finance Director discuss each departmental request with the applicable department head. Adjustments are made as appropriate and required to meet the City Council's goals and objectives.

The next step in the budget process involves preparation of the budget document. The Finance Department prepares the final proposed revenue and expenditure pages for each department covering all funds and other supplemental material. The manager prepares the budget message and narrative. The proposed budget is submitted to the Council by the first meeting in May. Several Council study sessions are held before the required public meetings. The budget is scheduled for adoption in June.

The City of Arcata uses the modified accrual basis for budgeting in governmental funds. Proprietary funds are budgeted using accrual concepts. All operating and capital expenses and income are identified in the budgeting process because of the need for appropriation authority. All annual appropriations lapse at year-end.

## **Budget Policies**

The City Council of the City of Arcata recognizes a need to create budget and fiscal policies that assures delivery of products and services as efficiently and effectively as possible.

### **Operating Budget – General**

The operating budget will be based on the principle that current operating expenditures shall be funded with current revenues. Unappropriated fund balances/working capital in enterprise funds may be used by the City Council to meet one-time special project/program expenses. The operating expenses of the City will be supported by recurring revenues and will not be funded through long-term debt. The enterprise expenses will be funded through current revenues excluding interest income. Expenditures shall include funding adequate maintenance and replacement of capital and operating assets.

Budgetary control is maintained through monthly reports of all revenue and expenditure accounts. The City Manager, Finance Director and each department head review the monthly reports.

A mid-year budget review and adjustment process is completed each January and submitted to Council for review and approval at the first meeting in February. Projections of revenues and expenditures through the end of the fiscal year will be prepared and reviewed by the Finance Director with a report to the City Council. Budgetary adjustments are only considered within the

framework of the adopted budget and work plan. New work programs and new appropriations are not considered in the mid-year budget review.

### General Revenue Management

The following summarizes the City's general revenue management policies:

1. The City will strive to maintain a diversified and stable revenue system to shelter the government from short-term fluctuations in any revenue source and to ensure its ability to provide ongoing services.
2. The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
3. In order to achieve important public policy goals, the City has established various special revenue, capital project, debt service and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures and fund equity.
4. Any transfers between funds for operating purposes are clearly set forth in the Financial Plan, and can only be made by the Finance Director in accordance with the adopted budget.
5. Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with the changes in the cost of living as well as changes in methods or level of service delivery.
6. User fees will be developed and annually reviewed to insure they adequately recover the cost of services. In Enterprise Funds, user fees will provide full coverage of direct and indirect costs including depreciation and interest expense; subject to the limits imposed by Proposition 218 and the Government Code.

### Appropriations

The term "appropriations" means the amount approved for expenditure by the City Council with the adoption of the annual budget, along with subsequent budget modifications and adjustments. Appropriations will be based on the best estimates of Department Heads and the City Manager. Differing operating requirements, price changes, emergency situations and similar factors may require variation from the approved appropriations. Therefore, the City Manager has authority to adjust the appropriations so long as the changes do not exceed the total approved appropriations of an activity, except in case of emergency. The City Manager has the authority to meet emergency requirements and subsequently report to the City Council and secure Council approval for an appropriate budget modification.

### Appropriations Limitation

The Council will annually adopt a resolution establishing the City's appropriation limit calculated in accordance with Article XIIIB of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter approved amendments or state legislation that effect the City appropriation limit. The Council will generally consider the resolution to adopt an appropriations limit in connection with final approval of the budget.

## **FISCAL POLICIES**

### **Financial Reserve Policy**

To maintain the fund balance and retained earnings of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial positions from unforeseeable emergencies, the City will strive to maintain the following minimum fund and working capital balances:

#### **Minimum Fund and Working Capital Balances**

1. The City will maintain fund balances or working capital balances of at least twenty percent (20%) of operating expenditures in the General Fund and all Enterprise Funds and Internal Service Funds. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for -
  - a. Economic uncertainties and other financial hardships or downturns in the local or national economy.
  - b. Local disasters or catastrophic events
  - c. Contingencies for unseen operating or capital needs.
  - d. Cash flow requirements.
2. In order to assure that the City Council has some discretion in their financial decision making options, these reserve may be reduced with a majority City Council vote in order to fund unforeseeable financial conditions such as one-time expenditures, or as transition funding in a recessionary economy, or other budget shortfall stop gap measure of a temporary nature.

### **Service Level Policy**

Service levels will be provided with the constraints of available resources. Services will be provided only at the most efficient and effective level to meet the needs of local citizens and businesses as determined by the City Council. City financial planning will provide for adequate maintenance and replacement of capital items.

### **Investment Policy**

The City of Arcata invests its temporary pooled idle cash in accordance with California Government Code Section 53601 and has an investment policy which is adopted annually. Investment and cash management will be the responsibility of the Finance Director. The City's primary investment objective is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default. Accordingly, the following factors will be considered in priority order in determining individual investment placements:

1. *Safety* – The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The City only purchases investments that are considered safe.
2. *Liquidity* – This refers to the ability to “cash in” at any moment in time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality which ensures cash will be available when an unexpected need arises.

3. *Yield* – This refers to the potential dollar earnings an investment can provide and is described as the rate of return.

The City will strive to keep all idle cash balances fully invested through daily projections of cash flow requirements. In order to maximize yields from its overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.

### **Debt Policy**

The City will consider the use of debt financing only for one-time capital improvement projects only when the project's useful life will exceed the term of the financing and when project revenues or specific resources will be sufficient to service the debt. Debt financing will not be considered appropriate for any recurring purpose. An internal feasibility study will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.