Fiscal Policies

The City of San Diego has established fiscal policies through the City Charter, Council Policies, and Mayoral initiatives to guide responsible long-range fiscal planning and to develop the annual budget. In the past fiscal year, the City has amended existing policies and adopted new policies that foster responsible fiscal management. The Government Finance Officers Association (GFOA) recommends that local governments follow a financial planning process based upon established financial policies and strategies. Additionally, rating agencies such as Standard and Poor's, Moody's, and Fitch Ratings consider fiscal policies which clearly delineate sound financial planning practices when evaluating credit ratings. The policies listed below describe the framework that the City has in place that guides fiscal decision-making. New policies were implemented this year for prioritizing capital projects, debt issuance, and reserve levels.

The City's fiscal policies described below are, in most cases, summaries of the City Charter or Council Policy language. This list is not exhaustive and as policies are modified or adopted, they will be incorporated into future budget publications.

Guidelines – Eight Significant Areas

The annual budget is based on the framework for revenues and expenditures projected in the Five-Year Financial Outlook and includes funding for the eight significant areas that are mayoral priorities. Funding these eight areas is needed to restore or preserve the fiscal integrity of the City and/or meet its legal and operational obligations. The eight significant areas that are priorities to fund include:

- Deferred maintenance and capital needs
- Americans with Disabilities Act (ADA) obligations
- New obligations under the Storm Water Runoff Permits
- The City's required contributions to the pension plan
- Retiree health – Other Post-Employment Benefits (OPEB)
- General Fund reserves
- Public Liability Fund reserve
- Workers' Compensation Fund reserve

  – Mayoral Initiative

Fiscal Policies

Legal Authority

The City Council will pass an Annual Appropriation Ordinance which establishes the legal spending authority for each budgeted fund and/or department based on the estimates presented in the annual budget.

– Charter Section 71

Planning – Five-Year Financial Outlook

In his first year in office, the Mayor began the practice of developing the Five-Year Financial Outlook for the City of San Diego, the first of which was released in November 2006. The Outlook was updated and released in January 2008 and continues to present a comprehensive examination of the City's long-range fiscal condition. The Outlook has proven to be an important planning tool for the City. Beginning with Fiscal Year 2007, the Outlook has guided the City in developing the Fiscal Year 2008 Annual Budget, and has served as the basis for the City's long-term fiscal decision-making. The Outlook communicates the City's fiscal priorities, the City's strengths, and the challenges that remain in achieving a balanced General Fund budget and improved fiscal health.

Interim Financial Reporting

The City Comptroller provides monthly reports to the City Council detailing the fiscal status of the City with a comparison of actual revenues and expenditures to budgeted amounts.

– Charter Section 39 and 89

Financial Management provides the City Council with quarterly reports forecasting the end-of-year status of the City's finances in relation to the annual spending plan established at the onset of each fiscal year. Recommendations for appropriation adjustments necessary to maintain balanced revenue and expenses may be included.

– Council Policy 000-020

Balanced Budget

A summary outlining the figures of the budget that describes the balance between the ensuing year's total expenditures and the total revenues, contrasted with corresponding figures for the current year, is presented by the Mayor no later than April 15 of each year. The classification of the estimate shall be as nearly uniform as possible for the main divisions of all departments and shall furnish necessary detailed fiscal information.

– Charter Section 69 and 265

Capital Improvements and Fixed-Assets

Capital improvements include repairs to City facilities that increase the life of the asset, such as roof replacement, heating and cooling system upgrades, structural repairs, as well as repairs and improvements to storm drains and streets. Additionally, capital projects may be established for the procurement of real estate, vehicles, computer software and other items that will have a useful life beyond two fiscal years. Fixed or capital assets include tangible and long-term physical improvements or additions of a fixed or permanent nature, such as land, buildings, building expansions, vehicles, machinery, equipment, and infrastructure.

Capital Improvement Program (CIP) Prioritization

An objective process for evaluating CIP projects with respect to the overall needs of the City will be established through the ranking of CIP projects. The ranking of projects will be used to successfully allocate and maximize all available resources to ensure projects are completed effectively and efficiently, resulting in more projects delivered citywide. It is anticipated that this prioritization will be implemented for the Fiscal Year 2010 budget.

– Council Policy 800-14

Capital Outlay

All proceeds received from the sale of city-owned real property are deposited in the Capital Outlay Fund. This fund is used exclusively for capital improvements.

– Charter Section 77

Debt Management

An appropriation for the repayment of the debt of the municipality is to be included in the annual budget and in each Annual Appropriation Ordinance passed by the Council. The inclusion of this appropriation in the Annual Appropriation Ordinance will facilitate accurate and timely payment of debt obligations.

– Charter Section 74

No bonds shall be issued on the credit of the City, which will increase the City's bonded indebtedness beyond 10 percent of the assessed valuation of all taxable real and personal City property, as shown by the last preceding valuation for City taxes. Bonds regarded as exceptions are those issued by a two-thirds vote of Council for the purpose of acquiring, constructing, or completing improvements for the development, conservation, and furnishing of water. These bonds can increase the bonded indebtedness to 15 percent of the assessed valuation of City property.

– Charter Section 90

The City's Debt Policy adopted by the City Council in Fiscal Year 2008 documents the procedures and goals for the use of debt instruments to finance City needs. Credit rating agencies and the investment community look favorably upon formal debt policies as evidence of prudent and sound fiscal management, and as a reflection of a commitment to long-term financial planning. The Debt Policy is an important tool that supports the use of the City's resources to meet its financial commitments and to maintain sound financial management practices.

The Debt Policy establishes guidelines to address the following: purpose and need for financing, creditworthiness objectives, types of debt, affordability targets, structure and term of City indebtedness, method of issuance and sale, financing team role and selection process, refunding considerations, and post issuance administration. Appendices of the Policy include specific policies for Special Districts. The Special Districts Formation and Financing Policy provides uniform guidelines for the City's Community Facilities District (CFD) and 1913/1915 Act Assessment District Formation and Financing, which are typically formed to finance public infrastructure in connection with new development or finance improvements pertaining to established communities. Also included in the appendices are copies of the City's Industrial Development Bond Program and San Diego Housing Commission's Policy.

– City Debt Policy (Resolutions 303152 and 303153)

Investment

The City's pooled investment fund shall be comprised of a core and liquidity portfolio. The liquidity portfolio is designed to ensure that the projected expenditures and related demands for cash can be met over a six month period. The investment process is governed by the City's Investment Policy, which is reviewed and approved by the City Council annually. The City's Investment Policy was re-certified by the Association of Public Treasurers of the United States & Canada in June 2007.

– *City Treasurer's Investment Policy*

Financial Reserves

The City Reserve Policy, approved by Council on July 29, 2008, defines the City's reserves and sets policy targets for reserve balances intended to be the foundation for ensuring that strong fiscal management guide future City decisions.

General Fund Reserves

General Fund Reserves, which includes the Emergency Reserves, the Appropriated Reserves as well as the Unappropriated Reserves, are set at a minimum of 8 percent of annual General Fund revenues. The City shall reach this level no later than Fiscal Year 2012.

Emergency Reserve

The Emergency Reserve shall contain an amount no less than five percent of annual General Fund revenues and shall reach eight percent no later than June 30, 2012. Emergency Reserve funds are only to be used in the case of a natural disaster or unforeseen catastrophic event caused by human activity, such as a terrorist attack. The Emergency Reserve should not be accessed to meet operating shortfalls or to fund new programs or personnel; although, Emergency Reserve funds in excess of the reserve level may be re-appropriated by Council action. This reserve may be expended only in the event of a public emergency, as determined by a two-thirds vote of the Council, when such expenditures are necessary in order to ensure the safety, lives, and property of the City or its inhabitants.

Appropriated Reserve

The funds dedicated to the Appropriated Reserve will be appropriated to a single account within the General Fund annual budget and will conform to no maximum or minimum amount in any given fiscal year. Funds left unexpended in a given fiscal year will return to the General Fund's Unappropriated Reserve balance and may then be re-appropriated in the subsequent fiscal year.

Unappropriated Reserve

An Unappropriated Reserve is maintained to support General Fund operations in the event of unanticipated requirement for additional appropriations where the use of the Emergency Reserves would not be appropriate. Should the funds in the Appropriated Reserve be exhausted in a fiscal year, the Unappropriated Reserve may be used. Recommendations to appropriate these funds would be brought forward by the Mayor or the City Council and would require approval by a majority of the City Council.

Fiscal Policies

Workers' Compensation Fund Reserve Policy

The City shall maintain Dedicated Reserves equal to but not less than 50 percent of the value of the outstanding claims. This amount should be achieved no later than Fiscal Year 2014.

Public Liability Reserve

The City shall maintain Dedicated Reserves equal to but not less than 50 percent of the value of the outstanding claims and reach this level of reserve by Fiscal Year 2014. This level recognizes that not all claims will become due and payable at one point in time, yet there may be more than one large claim that could require an immediate payment.

Long-Term Disability Fund Reserve Policy

The reserve level in this fund shall be established to equal $12.0 million by Fiscal Year 2012, as recommended in the Long-Term Disability Actuarial report. The City shall increase the reserve annually to achieve the reserve target of $12.0 million by Fiscal Year 2012.

The City Reserve Policy also outlines reserve requirements for specific enterprise funds and establishes appropriated, operating, and capital reserves for each fund. Additionally funds such as rate stabilization, secondary purchase reserve and a Dedicated Reserve from Efficiency and Savings (DRES) fund are defined for the following departments.

- Development Services
- Water
- Wastewater
  - *City Reserve Policy (Ordinance 303941)*

Continuous review of the City's fiscal policies will continue to support the City's ongoing efforts to improve financial transparency and improve the fiscal strength of the City.

Additional fiscal policies that are currently underway include:

- Cost recovery policy for fees
- Budget policies to be developed in conjunction with the new ERP system to support internal controls