

# 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 adopted budget. The City continues to review existing policies and may adopt new policies as needed to 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 Investor Services, 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 guide fiscal decision-making.



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 – Significant Areas

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

- The City's Pension Plan
- The City's General Fund reserves
- The City's deferred maintenance and capital improvement needs
- The City's Retiree Health-Other Post Employment Benefits (OPEB)
- The City's obligations under the California Regional Water Quality Control Board (Municipal Storm Water Permit)
- The City's obligations under the Americans with Disabilities Act (ADA)
- The City's Workers' Compensation Fund reserves
- The City's Public Liability Fund reserves

– *Mayoral Initiative*

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## 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 upon the adopted 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 (Outlook) for the City of San Diego, the first of which was released in November 2006. The most recent Outlook was updated and released in February 2011 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

Adopted budgets, 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 Sections 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 000-02*

## Budget Policy

The City has developed a Budgetary Policy in Fiscal Year 2010 which will assist the City in achieving its current and future goals in a fiscally responsible and sustainable manner. These policies serve to guide the creation of the City's budget and outline standards for revenue generation and the execution of operating and capital budget expenditures as recommended by the GFOA and the National Advisory Council on State and Local Budgeting (NACSLB). This document shall be

reviewed on a regular basis to reflect the highest standards of fiscal management and the City's budgetary goals.

– *Council Policy 000-02*

## 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 Sections 69 and 265*

## Basis of Budgeting

The City's budgets for Governmental Funds, such as the General Fund, Debt Service Funds, Special Revenue Funds, and Capital Project Funds shall be prepared based on the modified accrual basis of accounting (revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the accounting period in which the fund liability is incurred), except that (1) encumbrances outstanding at year-end shall be considered expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies shall be considered as additions/deductions of expenditures.

The City's Proprietary Funds, which are comprised of Enterprise Funds and Internal Service Funds, shall also be prepared on the modified accrual basis of accounting with the exception that revenues are recognized when they are earned.

The City's operating budget shall exclude unrealized gains or losses resulting from the change in fair value of investments, and proceeds from capital leases.

## Capital Improvements 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.

– *Council Policy 800-14*



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## 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 Adopted 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 is 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 and the core portfolio is invested to allow for additional liquidity and longer term growth of principal. The investment process is governed by the City Treasurer's Investment Policy, which is based on the California Government Code and annually presented to the City Treasurer's Investment Advisory Committee for review. The City Treasurer's Investment Policy is finally reviewed and accepted annually by the Budget and Finance Committee and then the City Council. The City's Investment Policy was re-certified by the Association of Public Treasurers of the United States and Canada in June 2007.

– *City Treasurer's Investment Policy*

## **Financial Reserves**

The City Reserve Policy, approved by Council on July 21, 2008, defines the City's reserves and sets policy targets for reserve balances intended to be the foundation for ensuring that strong fiscal management guides future City decisions. A revision to the City Reserve Policy is currently underway and is expected to be presented to the City Council during Fiscal Year 2012. These modifications are necessary to ensure that the policy remains current with general accounting and financial best practices, as well as any regulatory requirements or changes in standards that may have occurred since the policy was last approved.

### **General Fund Reserves**

General Fund Reserves, which include the Emergency Reserve, the Appropriated Reserve, and the Unappropriated Reserves, are set at a minimum of 8 percent of annual General Fund revenues. The City Reserve Policy currently states that the City shall reach this level no later than Fiscal Year 2012. It is expected that the General Fund will be at this level in Fiscal Year 2012.

#### ***Emergency Reserve***

An Emergency Reserve is to be maintained for the purpose of sustaining General Fund operations at the time of qualifying emergencies as declared by the Mayor and/or City Council and ultimately approved by City Council. Until the City reaches a reserve level in excess of 8 percent of annual General Fund revenues, for purposes of calculating the City's General Fund Reserve level, the City shall combine the balance in the Emergency Reserve with the balances in the Appropriated Reserve and the Unappropriated Reserve in order to achieve the targeted reserve balance percentages. At no time shall the balance in the General Fund Emergency Reserve fall below 5 percent unless specifically waived by the City Council because of an unforeseen emergency as defined in the Reserve Policy.

#### ***Appropriated Reserve***

An Appropriated Reserve may be maintained with the purpose of paying for unanticipated operational needs that arise during the fiscal year but not anticipated during the budget process. Funds appropriated to this Reserve will be identified and appropriated to a single account within the General Fund Adopted budget. There shall be no maximum or minimum amount appropriated to this

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Reserve in any given year. Any funds that are not expended in a given fiscal year will revert back to the Unappropriated Reserve and may then be re-appropriated in the subsequent year, consistent with the Reserve Policy. A revision to the Reserve Policy on the authorization to use these funds is currently underway.

## ***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 and would require approval by a majority of the City Council.

## **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. The City Reserve Policy currently states that this amount should be achieved no later than Fiscal Year 2014. However, the reserve level of 22 percent is intended to be maintained in Fiscal Years 2011 and 2012, instead of reaching 30 percent and 35 percent, respectively. Revisions to the City Reserve Policy are currently underway.

## **Public Liability Reserve**

The City Reserve Policy currently states that 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. However, the reserve level of 15 percent is intended to be maintained in Fiscal Years 2011 and 2012, instead of reaching a 25 percent and 35 percent targeted amount, respectively. Revisions to the City Reserve Policy are currently underway.

## **Long-Term Disability Fund Reserve Policy**

As recommended in the Long-Term Disability Actuarial report the reserve level in this fund shall be established to equal \$12.0 million by Fiscal Year 2012. The City shall increase the reserve by a minimum of \$2.25 million in Fiscal Year 2009 and a minimum of \$2.25 million annually thereafter to achieve this reserve target. However, the reserve contribution in Fiscal Year 2012 is only \$614,000 instead of \$2.25 million as stated in the policy. Revisions to the City Reserve Policy are currently underway.

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 a Rate Stabilization Reserve, Secondary Purchase Reserve, and a Dedicated Reserve from Efficiency and Savings (DRES) are defined for the departments listed below. Revisions to these portions of the Reserve Policy are currently underway.

- Development Services
  - Water
  - Wastewater
- *City Reserve Policy (Ordinance 19679)*

## User Fees

User fees are charged for services provided to residents and businesses in the City as a result of public need. Abiding by the standards and best practice guidelines established by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB), the City has formed a policy to identify factors to be considered in calculating the full cost of services in order to appropriately set fees. The City Council approved the User Fee Policy in Fiscal Year 2009.

The User Fee Policy requires that all fees be categorized according to the level of cost recovery (full or partial recovery or be considered as penalties which would not require a specific cost recovery level). Cost recovery rates shall be determined based upon direct and indirect costs.

According to the Policy, fees will be adjusted annually during the budget development process based on Consumer Price Index (CPI) inflation to maintain the cost recovery level. A comprehensive user fee study and review of the Policy will be conducted every three years.

All approved fee changes will be published in the City's user fee rate book and on the City's website.

– *Council Policy 100-05 (Resolution 304723)*

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

