



The City of San Diego

# ADOPTED BUDGET



Fiscal Policies

Fiscal Year

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# 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*

# 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 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 October 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. Depreciation expense is not included in budgeting for these funds but the full purchase price of equipment is included in the budget.

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.

Budgetary control is maintained at the department level for the General Fund and at the fund level for all other funds.

## Basis of Accounting

The City uses the modified accrual basis of accounting for governmental funds. Revenues are recognized as soon as they are both measurable and available. Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt which are recognized when due; and (2) employee annual leave and claims and judgements from litigation which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources.



## **Fiscal Policies**

Government-wide financial statements and proprietary financial statements are reported using the accrual basis of accounting, where revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

### **Mid-Year Budget Adjustments**

During any fiscal year after the City has six months of actual budgetary data and the Mid-Year Budget Monitoring Report is projecting a surplus or a deficit relative to the Adopted General Fund Budget, the Mayor shall report such deficit or surplus to City Council and provide a recommendation to the City Council, and accompanying budget amendment resolution, to address the reported deficit or surplus. The Mayor may recommend budgeting all, none, or any portion of any projected surplus. The City Council may approve the Mayor's recommendation or modify such recommendation in whole or in part, provided that (1) the City Council may budget and appropriate up to the total amount recommended by the Mayor, or (2) if the Mayor recommends budgeting less than \$5.0 million of the projected surplus amount, the City Council may only increase the adopted General Fund budget by up to \$5.0 million or not more than 50 percent of any projected surplus, whichever total dollar amount is less.

- *Ordinance 20084*

### **Community Projects, Programs, and Services**

The City has developed a policy, initially adopted on July 7, 2011 and amended by City Council on December 8, 2011, to establish guidelines and uniform eligibility requirements for the annual appropriation and expenditure of funding for each City Council Office for community projects, programs, and services to be expended at the discretion of each Councilmember during the fiscal year. Annual funding levels are subject to budget priorities as established by City Council each year. Proposed funding levels for Community Projects, Programs, and Services for each Council Office will be included each year in the Mayor's Proposed Budget. Proposed funding levels for the following fiscal year may be initially determined based on estimated savings to be achieved related to the administration of each Council Office by the current fiscal year-end. Variances in actual savings from budgeted amounts may result in recommendations from the Mayor to the City Council to revise appropriations to reflect actual savings, as a mid-year budget adjustment, depending on financial circumstances, and prior year results for the General Fund and reserves.

- *Council Policy 100-06*

### **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*

### **CIP Transparency**

The Capital Improvement Program Transparency Policy establishes the standard requirements for enhancing CIP transparency and improving access to publicly available information related to the CIP. It also establishes the framework for making the information readily available to the

stakeholders by using a combination of presentations to the City Council, stakeholder meetings, and media including the City's Website. This policy was initiated as part of the CIP streamlining process.

– *Council Policy 000-31*

## 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 various debt instruments to finance City needs and sound management of the existing debt obligations.

The Debt Policy established 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. The Debt Policy addresses debt instruments issued by the joint powers authorities on behalf of the City including Lease Revenue Bonds, Revenue Bonds for Water and Sewer Systems and Conduit Financing Bonds.

Appendices to the Policy include specific policies for Special Districts. The Special Districts Formation and Financing Policy (Appendix A to the Debt Policy) provides uniform guidelines for the formation of Community Facilities District (CFD) and 1913/1915 Act Assessment Districts. Also



## **Fiscal Policies**

included in the Debt Policy are policies for the City's Industrial Development Bond Program and San Diego Housing Commission Policy Multifamily Mortgage Revenue Bond Program. The Debt Policy reviewed and updated annually. The updates for calendar year 2012 were approved by City Council in April 2012.

- *City Debt Policy (Amended by Resolution 307375 in April 2012)*

## **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 per California Government Code 53646 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 Treasurer'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, amended by City Council on December 15, 2011, 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.

### **General Fund Reserves**

General Fund Reserves, which include the Emergency Reserve, the Appropriated Reserve, and the Unassigned General Fund Balance, are set at a minimum of 8 percent of annual General Fund revenues. The City Reserve Policy states that the City shall reach this level by Fiscal Year 2012. This 8 percent reserve target has been met and is expected to be exceeded based on Fiscal Year 2012 year-end revenue projection and the Fiscal Year 2013 General Fund adopted revenue budget.

### ***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 Unassigned General Fund Balance 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 Reserve in any given year. Any funds that are not expended in a given fiscal year will revert back to



the General Fund Unassigned Fund Balance and may then be re-appropriated in the subsequent year, consistent with the Reserve Policy. Recommendations to use these funds would be brought forward by the Mayor and would require approval by a majority of the City Council.

## ***Unassigned General Fund Balance***

The General Fund Unassigned Fund Balance includes all amounts not restricted, committed, or assigned for a certain purpose. Unassigned amounts are available for any governmental purpose and can be appropriated in the event of an unanticipated requirement for additional funds where the use of the Emergency Reserve would not be appropriate. Should the funds in the Appropriated Reserve be exhausted in a fiscal year, the Unassigned General Fund Balance 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 50 percent of the value of the outstanding claims. The target is to reach the 50 percent reserve level by Fiscal Year 2019.

## **Public Liability Reserve Policy**

The City shall maintain Dedicated Reserves equal to 50 percent of the value of outstanding public liability claims. This reserve 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. The target is to reach the 50 percent reserve level by Fiscal Year 2019.

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

As recommended in the Long-Term Disability Actuarial report, the reserve target for the Long-Term Disability Fund is \$12.0 million and is expected to be achieved by Fiscal Year 2014. The City will increase the reserve by a minimum of \$1.9 million in Fiscal Year 2012 and thereafter to achieve the reserve target of \$12.0 million by Fiscal Year 2014. The City is evaluating the feasibility of purchasing an insurance policy to cover this benefit as an alternative to the current practice of self-insurance.

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.

- 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.

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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 shall 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 shall be conducted every three years.

During Fiscal Year 2012, the City completed a comprehensive study on General Fund user fees. Fees proposed to be adjusted for Fiscal Year 2013 were presented for City Council review on June 11, 2012. All approved fee changes will be published in the City's user fee rate book and on the City Clerk's website and will be implemented July 1, 2012 with commencement of Fiscal Year 2013.

The Fiscal Year 2013 Adopted Budget includes an increase of \$1.1 million in user fee revenues based on the adjustments approved by City Council.

*- Council Policy 100-05 (Resolution 307482)*

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.