

# FY: 2017

Fiscal Policies



CITY OF SAN DIEGO

## PROPOSED BUDGET

MAYOR KEVIN L. FAULCONER

The City of  
**SAN  
DIEGO**



# Fiscal Policies

The City of San Diego has established fiscal policies through the City Charter and Council Policies 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 Investors Service, 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.

## **Legal Authority** *(Charter Section 71)*

The City Council will enact an annual Appropriation Ordinance which establishes the legal spending authority for each budgeted fund and/or department based upon the adopted budget.

## **Planning – Five-Year Financial Outlook**

The practice of developing the Five-Year Financial Outlook (Outlook) on an annual basis for the City of San Diego began in Fiscal Year 2007, the first of which was released in November 2006. The most recent Outlook was updated and released in November 2015 and continues to present a comprehensive examination of the City's long-range fiscal condition. The Outlook primarily focuses on the General Fund and 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, strengths, and challenges in achieving a balanced General Fund budget.

## **Interim Financial Reporting** *(Charter Sections 39 and 89, Council Policy 000-02)*

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.

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.

## **Mid-Year Budget Adjustments** *(Municipal Code section 22.0229)*

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, up to the total amount recommended by the Mayor.

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## **Budget Policy** *(Council Policy 000-02)*

The City developed a Budgetary Policy, which was amended by City Council in December 2014, to assist the City in achieving its current and future goals in a fiscally responsible and sustainable manner. The policy serves 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.

## **Balanced Budget** *(Charter Sections 69 and 265)*

A summary outlining the figures of the budget that describes the balance between the ensuing year's total expenditures and 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.

## **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 liability is incurred), except that 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 full accrual basis of accounting (revenues are recognized when they are earned and expenses are recognize when liability is incurred).

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.

## **Community Projects, Programs, and Services** *(Council Policy 100-06)*

The City 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 Council member 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.

## **Capital Improvements Program (CIP) Prioritization** *(Council Policy 800-14)*

The City's Prioritizing Capital Improvement Program Projects Policy was adopted on January 16, 2007 and amended by City Council on November 13, 2013. This policy establishes an objective process for evaluating CIP projects with respect to the overall needs of the City 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.

### **CIP Transparency** *(Council Policy 000-31)*

The Capital Improvements Program Transparency Policy was adopted by City Council on April 5, 2012. This 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.

### **Capital Outlay** *(Charter Section 77)*

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.

### **Debt Management** *(City Debt Policy)*

The City's Debt Policy was adopted by the City Council in Fiscal Year 2008 and updated every other year with the last update on March 27, 2015 by Council Resolution 309577. The policy documents the procedures and goals for the use of various debt instruments to finance City needs and the sound management of the existing debt obligations.

The Debt Policy established guidelines to address the following: purpose and need for financing; credit ratings; types of financing instruments; affordability ratios; 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 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.

### **Investment** *(City Treasurer's Investment Policy)*

The City Treasurer's Pooled Investment Fund is comprised of core and liquidity portfolios. 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 City Council.

### **Financial Reserves** *(Council Policy 100-20)*

The City Reserve Policy, adopted by Council on October 15, 2002 and amended by City Council on July 17, 2014, defines the City's reserves and sets policy targets for reserves across the spectrum of City operations, including General Fund, risk management and enterprise operations. These reserves are intended to be the foundation for ensuring that strong fiscal management guides future



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City decisions. On April 12, 2016, the City Council was scheduled to hear a proposal to update the City's Policy; this date is after the publication of this document. Any changes to the Reserve Policy approved by the City Council will be reflected in the Mayor's May Revision of the Fiscal Year 2017 Proposed Budget and the Fiscal Year 2017 Adopted Budget.

## **General Fund Reserves**

Total General Fund Reserves, which include the Emergency Reserve and the Stability Reserve, are set at 14.0 percent of the most recent three year average of annual audited General Fund operating revenues. The Emergency Reserve shall be set at a target level of 8.0 percent, and the Stability Reserve shall be set at a target level of 6.0 percent. The City currently projects that it will meet its target in Fiscal Year 2016, and no additional transfers to the reserves are needed to reach 14.0 percent.

Total General Fund Reserves will be based on, and reconciled to, the General Fund fund balance. The sum of the Emergency Reserve, Stability Reserve, and amounts determined to be Excess Equity shall equal the sum of unrestricted fund balance and amounts restricted for the purpose of maintaining the Emergency Reserve.

## ***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. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council when such expenditures are necessary to ensure the safety of the City's residents and property. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Emergency Reserve balance to the policy level.

## ***Stability Reserve***

A Stability Reserve will be maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not serve as an alternative funding source for new programs. Recommendations to appropriate from the Stability Reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Stability Reserve balance to the policy level.

## ***Excess Equity***

Excess Equity is spendable and unrestricted fund balance that is not otherwise assigned to General Fund Reserves and is available for appropriation. Excess Equity is most commonly a non-recurring source of revenue. Consistent with City Council Budget Policy (Policy No. 000-02) and the use of one-time and ongoing revenues, Excess Equity will be appropriated primarily for unanticipated circumstances, such as a General Fund revenue shortfall affecting programs included in the current year budget or for one-time priority expenditures. Recommendations for the use of Excess Equity may be brought forward by the Mayor and will require approval by a majority of the City Council.

In the May Revision of the annual budget, the Mayor may propose to budget any projected Excess Equity as a contingency to fund the General Fund Reserves, Risk Management Reserves or for a priority one-time capital need. The transfer would occur after the fiscal year close is completed and the budgeted Excess Equity amount is determined to be available in fund balance above the 14 percent General Fund Reserves.

## **Workers' Compensation Fund Reserve Policy**

The City shall maintain reserves equal to 25 percent of the value of the outstanding 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 25 percent reserve target was met in Fiscal Year 2015 and projected to be met at the end of Fiscal Year 2016.

## **Public Liability Fund Reserve Policy**

The City shall maintain 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 Fiscal Year 2017 target is to reach 43.0 percent of the average actuarial liability valuation of the three most recent fiscal years.

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

Policy requires that the long-term disability fund reserves equal the average actuarial liability valuation of the three most recent fiscal years. The reserve is currently projected to be funded above the policy level, and the Fiscal Year 2017 Proposed Budget does not include any additional contributions.

## **User Fees** (*Council Policy 100-05*)

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 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, a comprehensive user fee study and review of the Policy shall be conducted every three years. The City completed a comprehensive study on the General Fund user fees during Fiscal Year 2015 with implementation taking place with the commencement of Fiscal Year 2016. The next comprehensive study of General Fund user fees is scheduled to occur during Fiscal Year 2018 with implementation taking place with the commencement of Fiscal Year 2019.

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.



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