



Council Agenda Report

Meeting Date: 12/16/2014

Item Number: B2

FROM: Katie Lichtig, City Manager
Wayne Padilla, Finance and IT Director

Prepared By: Michael Codron, Assistant City Manager
Joe Lamers, Budget Manager

SUBJECT: 2015-17 FINANCIAL PLAN PROCESS; AND CONSIDERATION OF PROPOSED CHANGES TO THE CITY'S BUDGET POLICIES

RECOMMENDATION

1. Review and approve the 2015-17 Financial Plan Goal Setting Process and revision to the date of the Council's Strategic Budget Direction meeting to April 21, 2015.
2. Receive and file the Local Revenue Measure (Measure Y) Integration Report.
3. Review and approve proposed changes or direction regarding the City's budget policies, including:
 - A. Direction to develop a new policy to support the creation of an Infrastructure Investment Capital Fund and return to the City Council for review in Spring 2015.
 - B. Changes to existing reserve policies for the Fleet and Information Technology replacement funds.
 - C. Direction to develop a new budget policy relating to reporting the City's unfunded pension liabilities and to return to the City Council in Winter 2015 with further analysis of whether additional funding should be allocated to unfunded pension liabilities during the 2015-17 Financial Plan.
 - D. Direction to update the City's purchasing and procurement policies to improve operating efficiencies for City Council review in Winter 2015.

REPORT-IN-BRIEF

The City of San Luis Obispo utilizes a two-year financial planning process to create its budgets. This process includes extensive public outreach to assist the City Council in establishing Major City Goals. The benefits of this process are two-fold, it ensures that resources are provided in the budget to accomplish the community's highest priority, most important objectives, and it is a method to help create a mutual understanding among residents, decision makers, and City staff about what can be achieved by working together.

The process includes the Community Priorities Survey, the Community Forum, the Council Goal-Setting Workshop, and several other steps to prepare the City Council for selecting goals, and provide City staff with direction on work programs to support those goals. One of these steps is the City Council's Strategic Budget Direction meeting. Staff is recommending that the date of this meeting be revised to April 21, 2015, to better accommodate the Mayor's schedule.

The 2013-14 Measure Y Integration Report is included in this report as Attachment 8. The report is a requirement of the Measure Y ordinance. Staff is recommending that the City Council receive and file this report. This report, along with the 2014-15 Measure Y audit, will be presented to the Revenue Enhancement Oversight Commission during their first meeting on January 26, 2015.

Four areas of discussion are included in this report regarding City budget policies. Staff is recommending the creation of an Infrastructure Investment Capital Fund, which would give the City the ability to facilitate important new infrastructure projects in support of new housing and the creation of head of household jobs. The fund would work in a similar fashion as the City's Open Space Acquisition Fund.

Second, revisions are proposed to the reserve policies for the Fleet and Information Technology Replacement Funds to accomplish the intent of maintaining a reserve while also ensuring that the City is not setting aside too much, which would limit its ability to accomplish fund objectives.

Third, staff is recommending a new policy that will require the City to show its costs for paying unfunded pension liabilities in its Five-Year Fiscal Forecast. This new policy will improve transparency and create a better understanding of how the City is proactively addressing this component of its total PERS costs. While not yet perfected, PERS' new methodology for creating and reporting rates will make fulfilling this policy possible. Staff is also seeking direction to return to the City Council in Winter 2015 with a completed analysis and recommendation whether additional funding should be allocated to unfunded pension liabilities during the 2015-17 Financial Plan period. Attachment 10 includes the analysis to date of this issue.

Finally, staff continues to identify financial management efficiencies that enable its operations to be responsive and nimble, where appropriate. Recent work in this area has highlighted the potential for updates to the City's purchasing policies and procedures. This report includes a brief discussion of these issues and recommends that the Council provide staff with direction to return with an updated policy in Winter 2015.

DISCUSSION

Two-Year Financial Plan Process

The following four features describe the City's Financial Plan process: goal-oriented, policy-driven, multi-year and technically rigorous. For over thirty years, the City has used a two-year financial planning process to create its budgets. The benefits of budgeting based on a two-year plan include:

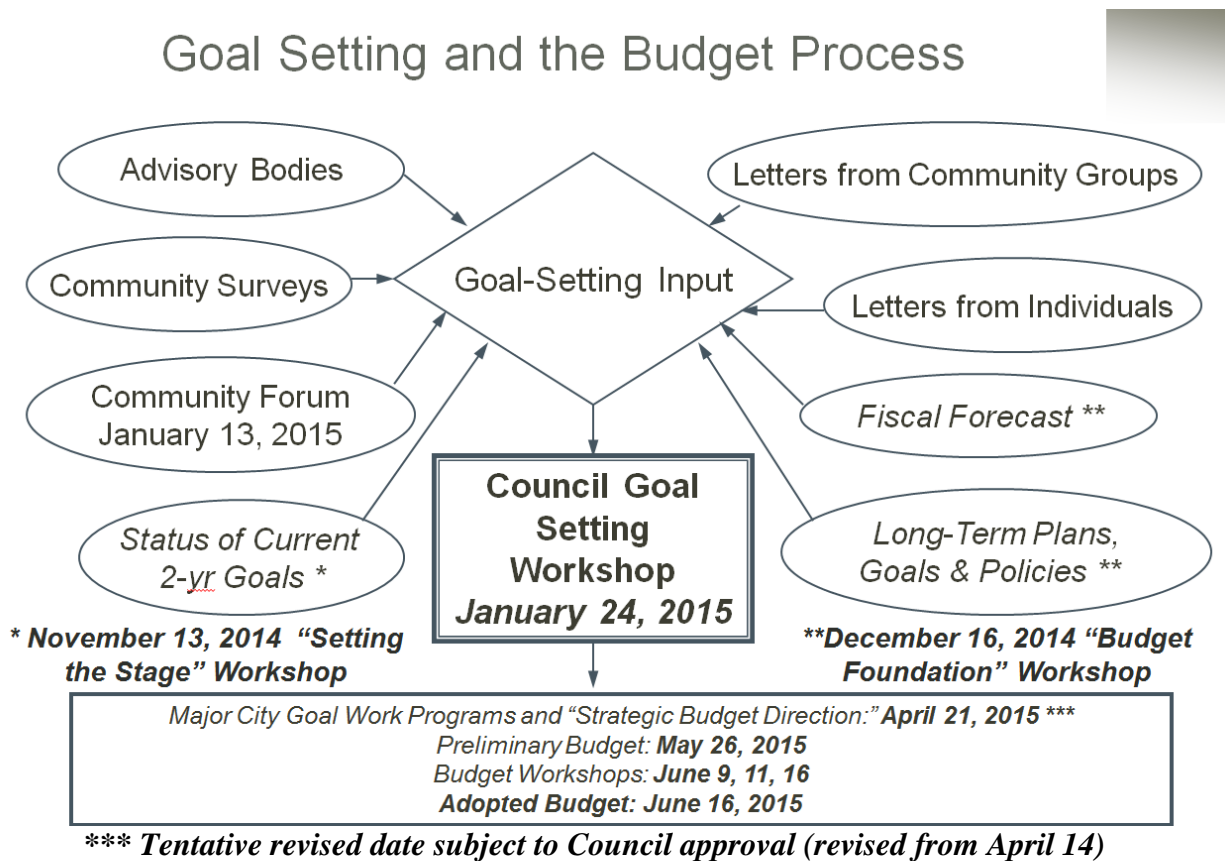
1. Reinforcing the importance of long-range planning in managing the City's fiscal affairs.
2. Concentrating on developing and budgeting for the accomplishment of significant objectives.
3. Establishing realistic timeframes for achieving objectives.

4. Creating a pro-active budget that provides for stable operations and assures the City's long-term fiscal health.
5. Promoting more orderly spending patterns.
6. Reducing the amount of time and resources allocated to preparing annual budgets.

The fundamental purpose of the City’s Financial Plan is to link what the City wants to accomplish over a two-year period with the resources required to do so. Central to the effort is providing support for the City’s core functions, including the day-to-day responsibilities carried out by City employees to support residents’ quality of life. In addition, the process allows the City Council to engage the community to identify Major City Goals to be accomplished.

2015-17 Goal-Setting Process

There are a variety of inputs to the City Council to enable them to establish Major City Goals. These inputs are highlighted on the following chart:



Many of these efforts have already started. For example, City Advisory Bodies have developed goals, the Community Priorities Survey (Attachment 1) has been mailed out and posted on-line, and the Council has participated in the November 13 “Setting the Stage” workshop. Notice has also been sent to over 200 community groups and individuals inviting their input (Attachment 2).

The two principal elements of the City’s goal setting process still to come are the **Community Forum**, to be held at 6:00 PM on *Tuesday, January 13, 2015*, at the Ludwick Community

Center, and the *Council Goal-Setting Workshop* to be held all day on *Saturday, January 24, 2015* at the City/County Library Community Room.

Staff and facilitator Don Maruska plan to build on past successes in integrating Council goal-setting into the budget process following an approach similar to the one used for many years, including integration of proposed uses for the City's local half-percent sales tax. The specifics are outlined below.

1. Community Forum

The January 13 Community Forum is intended to solicit suggestions from Council, residents, community groups, other groups of stakeholders and interested individuals on proposed City goals. It is also intended to meet the requirements of the City's half-percent local sales tax, by providing an opportunity for the community to "review and discuss the use of the revenue generated by this measure." To ensure that adequate space is available for the forum, it will be held at the Ludwick Community Center. The proposed agenda and procedures for the Community Forum are attached (Attachment 3).

2. Council Homework Assignment (Due to Finance by January 22, 2013)

The Council's "homework assignment" for the January 26 workshop is attached (Attachment 4). Based on all input received, it is requested that Council members prepare and submit *up to seven candidate goals* as Major City Goals by **9:00 a.m. on Tuesday, January 20, 2015**. Council members are also asked to indicate which of these goals should also be Measure G priorities, and to prepare and submit suggestions for changes in other programs and services that might help fund their desired goals. Staff will then compile verbatim, composite lists organized by common topics, without identifying who submitted the particular statements for review and consideration before the workshop. This list will be distributed to all Council members and the community at the close of business on Wednesday, January 21, 2015. While staff will retain individual submissions in the working files, it is recommended that Council members refrain from releasing their personal lists so that each Council member can review all of the submissions and discuss them at the Goal-Setting Workshop before taking a position.

Major City Goals represent the most important, highest priority goals for the City to accomplish over the next two years, and as such, resources should be included in the 2015-17 Financial Plan.

3. Council Goal-Setting Workshop

At the all-day January 24 workshop, the Council will review the consolidated goals presented by Council members to ensure clarity, completeness and understanding; and then narrow the list to finalist goals that are supported by at least three Council members. The discussion will note which goals address local sales tax priorities.

While the Council proceeds with the discussion outlined above, the staff will prepare a final listing that the Council can use in prioritizing goals. In years past, the Council has used a ranking system of 5 through 0 for each candidate goal. Staff recommends continuing to use this ranking system for 2013-15, summarized as follows:

- 5 Most important, highest priority for City to achieve over the next two years.
- 4 Very important goal to achieve.
- 3 Important goal to achieve.
- 2 Address if resources are available.
- 1 Defer to 2017-19 for consideration.
- 0 Not a priority goal.

Depending on the number of candidate goals, total points available to individual Council members have ranged in the past from 50 to 75 based on 3 points per candidate goal. The exact number of points used for ranking is typically figured out on the day of the workshop. Following the ranking exercise, staff will summarize the results. Based on past experience, it is likely that two priority “tiers” will emerge from this process:

1. **Major City Goals.** These represent the most important, highest priority goals for the City to accomplish over the next two years, and as such, resources to accomplish them should be included in the 2013-15 Financial Plan. The initial list of Major City Goals following the ranking will include only those goals where a majority of Council Members rank the goal as a 4 or 5. Subsequent discussion will allow the Council to refine the goal list, however, the list should remain consistent with the “Criteria for Major City Goals” (Attachment 7).
2. **Other Important Objectives.** Goals in this category are important for the City to accomplish, and resources should be made available in the 2013-15 Financial Plan if at all possible.

The outline for the goal setting workshop is provided in Attachment 5; and suggested guidelines for Council members during the goal-setting process are provided in Attachment 6. Included as Attachment 7 are the suggested “Criteria for Major City Goals” which have been used by the Council for many years. These criteria capture the relevant considerations to determine a Major City Goal, but the Council could refine the criteria at this time if desired.

No follow-up meeting has been needed in the last several goal-setting sessions as the Council concluded all necessary actions at the Saturday Goal-Setting Workshop. Continued consideration of goals for 2015-17 will be scheduled for the next regular Council meeting following the workshop only if needed.

The City Council is being presented with the elements of the financial planning process still to be executed to affirm. As such staff’s recommendation is to approve the remaining elements of the process and the revised schedule.

Essential Services Measure - Integration Report

Measure Y was approved by City voters in November 2006 to preserve essential services for the community. Measure Y established a one-half percent local sales tax with an eight-year sunset clause. The original measure would have expired on March 31, 2015, however voters approved its extension for an additional eight years during the 2014 General Election when they passed Measure G. The Measure Y Integration Report (Attachment 8) details how Measure Y revenue was integrated into the budget during the most recently completed fiscal year, 2013-14, and

illustrates how Measure Y expenditures supported Council goals. In the future, this report will be adjusted to report on Measure G priorities, including the additional fiscal accountability provisions contained in the new measure.

Measure Y includes provisions to ensure that consideration of this important revenue source is integrated into the financial planning process. The City's goal-setting process is designed to meet two of these requirements, as follows.

1. ***Integration into the City's budget and goal-setting process.*** The estimated revenue and proposed use of funds generated by this measure shall be an integral part of the City's budget and goal-setting process, and significant opportunities will be provided for meaningful participation by citizens in determining priority uses of these funds.
2. ***Annual citizen meeting.*** An invitation will be extended each year to the entire community asking Community members to participate in a forum to review and discuss the use of the revenue generated by this measure. City staff will also be available to meet with any group that requests a specific briefing with their members to discuss and answer questions about the revenues generated by the measure and their uses.

2013-15 Measure Y Priorities

- Preservation of Essential Services (Public Safety, Maintenance Services)
- Infrastructure Maintenance
- Neighborhood Wellness
- Open Space Preservation
- Transportation (Traffic Congestion Relief)

It is important to know that Measure Y is a general purpose measure, and the proceeds are not restricted to specific purposes. However, the language on the ballot measure approved by voters in 2006 provides examples of the types of uses that would be funded. The language on the ballot was:

“To protect and maintain essential services - such as neighborhood street paving and pothole repair; traffic congestion relief; public safety, including restoring eliminated traffic patrol, Fire Marshal and fire/paramedic training positions; flood protection; senior citizen services/facilities; neighborhood code enforcement; open space preservation and other vital general purpose services - shall the sales tax be increased by one-half cent for eight years only, with citizen oversight and independent annual financial audits?”

In short, while the ballot language provided examples of the types of uses that could be funded - based on community input received before placing the measure on the ballot - Measure Y is a general purpose tax providing Council with flexibility to respond to new circumstances and challenges. For 2013-14, total expenditures were \$5,305,999 and an additional \$4,364,265 in funding was encumbered or assigned for future projects (many of which are now under construction). These amounts and the specific operating and projects funded by Measure Y are detailed in Attachment 8. These are still the unaudited results. The final information will be

included in the Certified Annual Financial Report, which will be published before the end of the calendar year.

This year, the Community Forum will again give the community an opportunity to provide input to the Council as to their views on future Essential Services Measure spending priorities. For 2015-17, the budget and goal-setting process will shift to a discussion of Measure G priorities. This will help the Council connect Major City Goals and Measure G priorities. In addition, the Citizens' Revenue Enhancement Oversight Commission will be reviewing this and future reports as part of their responsibilities for reviewing and reporting on local revenue measure expenditures.

2013-15 FINANCIAL PLAN POLICIES

As noted in the discussion above, Council goal-setting is an important "first step" in the City's Financial Plan process. The second major feature in the City's Financial Plan Process is reliance upon clear polices. In looking at cities across the nation that have reputations for being financially well-managed, and have maintained their fiscal health through good times and bad, one finds that they have in common clearly articulated fiscal policies used in financial decision-making. This best practice, as implemented by the City of San Luis Obispo, has been acknowledged repeatedly by the bond rating agencies as an important factor in sustaining the city's excellent credit rating.

Formal statements of key budget and fiscal policies provide the foundation for assuring long-term fiscal health by establishing a clear framework for effective and prudent financial decision-making. The City's *Budget and Fiscal Policies* are traditionally set forth in the Reference section of the Financial Plan. The policies cover a broad range of fiscal issues, including:

- Financial Plan organization
- General Revenue Management
- User Fee Cost Recovery Goals
- Enterprise Fund Fees and Rates
- Revenue Distribution
- Investments
- Appropriations Limitation
- Fund Balances and Reserves
- Capital Improvement Management
- Capital Financing and Debt Management
- Human Resource Management
- Productivity
- Contracting for Services

At the outset of each financial planning cycle, the City reviews the policies in place to see if any updating is necessary. At this point, a few policy changes are proposed. Changes are generally intended to create consistency amongst City fiscal policies and create a system that is efficient and effective to administer. In addition for 2015-17, a new policy is proposed to implement a current Major City Goal and strategy in the Economic Development Strategic Plan. Also, consideration of how to report and address unfunded pension liabilities is made.

As staff begins preparing the 2015-17 Financial Plan, other additions or revisions to the City's budget and fiscal policies may arise; if so, these will be presented for Council consideration at that time.

Proposed Policy Changes

1. Infrastructure Investment Capital Fund Policy (New)

In early 2014, the City Council concluded a series of study sessions regarding infrastructure financing alternatives. These study sessions were part of the implementation of the Economic Development Strategic Plan, which identified the lack of infrastructure in certain areas of the City as a barrier to the creation of new head-of-household jobs. Following the study sessions, Council directed staff to develop a prioritized list of infrastructure projects, as follows.

Develop a prioritized list of infrastructure projects for the City to invest in from an Economic Development and Quality of Life perspective: *The Economic Development Strategic Plan calls on the City to consider revisiting fair-share percentages in its fee programs, specifically for projects that include community-wide benefits. Based on input from City staff and the public, outside consultants would assist City staff in preparing a prioritized list of infrastructure projects that would provide the most benefit to the City from an economic development and quality of life perspective. This effort is included in the Economic Development Major City Goal work program and is funded in the second year of the 2013-15 Financial Plan.*

Staff carried out a portion of this work effort internally, and one of the outcomes was an awareness that many factors complicate the usefulness and effectiveness of a single list of priority projects. These factors include timing, the state of the larger economy, overall City budget goals, and project benefits (e.g. job vs. housing vs. traffic congestion relief, etc.). As a result, staff is proposing a different method for identifying the infrastructure projects in which the City could or should invest.

Staff is recommending the creation of a budget and financial policy to support the establishment of an Infrastructure Investment Capital Fund (IICF) as part of the 2015-17 Financial Plan. This framework would allow the Council to evaluate the proposed investment in relation to current Major City Goals, the economic environment, and various other factors at the time of the decision, rather than having a static list of projects from which to choose. This concept is similar to the current Open Space Acquisition Fund, which has always sought to expand the greenbelt by being prepared when opportunities to acquire new open space arise. By setting up the IICF, Council would have the ability to set aside funding for future infrastructure projects that contribute to improved economic development and enhanced quality of life in the City of San Luis Obispo. The use of these funds would be at the discretion of Council based on funding guidelines approved by the City Council after an extensive public process.

Consistent with the Economic Development Strategic Plan, these funds would not be used as a direct incentive to any developer, nor be used to subsidize a developer's fair share payment towards infrastructure. To ensure that this is the case, any infrastructure project that is to be considered for possible support by the Council would have to meet certain minimum requirements as specified in any approved funding guidelines. The funding guidelines would be

brought to the City Council for approval, and examples of these requirements may include the following:

- The use of City funds shall not offset any cost that would be expected to be paid to meet the fair share obligation of any developer.
- The use of City funds shall not offset a project specific cost identified through the environmental review process or under existing regulations or policies.
- The use of City funds shall support a project that would not otherwise be feasible due to economic, timing or other issues outside the control of the project proponents or the City.
- The project shall provide significant public benefit by contributing to economic development and quality of life within the City.

Staff is recommending that the City Council provide direction to initiate the process to create a new budget policy and a public process to establish the fund. New language for the City's budget policies would be proposed as part of the Strategic Budget Direction in April 2015, if not sooner. If the new policy is adopted by the City Council, then staff would begin the process of developing the criteria to be used in administering the fund. This policy and criteria will be developed with the benefit of public outreach, including presentations to residents, businesses, and the development community.

2. Fleet and Information Technology Replacement Fund Reserve Policies (Revision)

Attachment 9 includes the City's Budget and Fiscal Policies for consideration. Staff is proposing changes to the reserve policies for the Fleet and Information Technology Replacement Funds, as follows.

- B. Fleet Replacement. For the General Fund fleet, the City will establish and maintain a Fleet Replacement Fund to provide for the timely replacement of vehicles and related equipment with an individual replacement cost of \$15,000 or more. ~~The City will maintain a minimum fund balance in the Fleet Replacement Fund of at least 20% of the original purchase cost of the items accounted for in this fund.~~ During the 2015-17 Financial Plan period, the City will establish and maintain a minimum fund balance in the Fleet Replacement Fund equal to \$500,000 for the emergency replacement of vehicles that are damaged beyond repair, and are either not covered under the City's property insurance program or the vehicle has a high replacement cost and insurance proceeds will be inadequate to provide for the vehicle's replacement (fire engine). Above this contingency level, the amount retained in this fund, coupled with the annual contributions received by it from any source, shall be adequate to fully fund the equipment replacements approved in the Financial Plan.

~~The annual contribution to this fund will generally be based on the annual use allowance, which is determined based on the estimated life of the vehicle or equipment and its original purchase cost.~~ Interest earnings and the proceeds from the sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the Fleet Replacement Fund.

- C. Information Technology (IT) Replacement Fund. The City will establish an IT Replacement Fund for the General Fund to provide for the timely replacement of information technology,

~~both hardware and software, with an individual replacement cost of \$25,000 or more. The City will begin building the fund balance with the long term objective of maintaining a minimum fund balance in the IT Replacement Fund of at least 20% of the original purchase costs of the items accounted for in this fund.~~ During the 2015-17 Financial Plan period, the City will establish and maintain a minimum fund balance in this fund equal to \$400,000 for the emergency replacement of equipment that is damaged beyond repair and not covered under the City's property insurance program.

Interest earnings and the proceeds from the sale of surplus equipment as well as any related damage and insurance recoveries will be credited to the fund.

These proposed changes to the reserve level of the Fleet and I.T. Replacement funds provide for a reasonable contingency reserve level that can be drawn down in the event of an unforeseen loss without requiring a further draw from the General Fund or its reserves. These amounts are reasonable in light of potential losses and are sized to allow the funding level to be achieved during the Financial Plan period without creating a shortfall of resources needed for other important tasks.

3. Unfunded Pension Liabilities

Included in the 2013-15 Major City Goal for Fiscal Health was the direction to staff to prepare a cost/benefit analysis regarding the City's ability to prepay its unfunded pension liabilities. Attachment 10 is a white paper discussing what those liabilities are and includes a discussion about the City's unfunded liability for its post-retirement insurance program. This information is presented in concept so that initial policy direction can be provided before Strategic Budget direction in April.

This initial policy direction would be provided via a new policy that will require the City to show its costs for paying unfunded pension liabilities in its Five-Year Fiscal Forecast. This new policy will improve transparency and create a better understanding of how the City is proactively addressing this component of its total PERS costs. The city's ability is dependent on this information being provided by PERS. While not yet perfected, PERS' new methodology for creating and reporting rates will make fulfilling this policy possible. If the City Council supports the concept, the new policy will be developed and presented to the Council during Winter 2015.

4. Efficient Purchasing Policies and Procedures (New)

One of the City's adopted Financial Plan objectives states that the City will link resources with results by "proposing objectives for improving the delivery of program services" (2013-15 Financial Plan, Objective A5, Pg. H-4). Based on organization-wide feedback, it appears that some of the existing policies and procedures that govern purchasing activities are hindering staff's ability to deliver services in an efficient and timely manner. With each required level of purchasing authority comes additional time, resources and review before a purchase can be made and related service delivered. In some circumstances, the additional levels of scrutiny do not appear to create additional value in terms of ensuring proper conduct, compliance with regulations, or other quality control benefits.

While checks and balances are important for prudent fiscal management, there are opportunities to reevaluate purchasing authority levels or bidding procedures to keep pace with the current market and streamline the delivery of program services. This systematic review of operations is consistent with adopted Financial Plan budget policies governing productivity, and specifically responds to guidance for “Analyzing system and procedures to identify and remove unnecessary review requirements” (2013-15 Financial Plan, #A, Pg. H-26). Staff is recommending that the City Council adopt an additional budget and fiscal policy in the *Productivity* section (Pg. H-26) that specifically focuses on purchasing systems:

H. Maintaining City purchasing policies and procedures that are as efficient and effective as possible.

If adopted, staff will bring forward an analysis of existing purchasing practices, including comparison with other benchmark cities, and return to the Council in Winter 2015 with recommendations for improvement.

CONCURRENCES

The City’s internal Budget Review Team and the Department Head Team concurs with the recommendations included in this report.

FISCAL IMPACT

There is no fiscal impact associated with the conduct of the City’s two-year financial planning process. The City budgets for all of the planned activities. Preparing budgets are one of the core government functions that the City is responsible for carrying out.

ALTERNATIVES

1. ***Modify the proposed Goal Setting activities.*** The Council could direct staff to pursue a different process for goal-setting this year. Staff does not recommend this alternative because there is value in conducting a similar process that residents are familiar with. If the Council is interested in making changes, staff recommends that they be incremental adjustments to the activities planned. If major changes are desired, they should be discussed and planned during the first year of the next financial plan.
2. ***Do not approve proposed budget policy changes.*** The City Council could decide not to approve one or more of the proposed budget policy changes. In this case, direction should be given to staff regarding the related issues and any other changes desired to the budget policies.

ATTACHMENTS

1. Community Priorities Survey
2. Invitation to Community to Participate in Goal Setting
3. Outline for Community Forum
4. Homework for Council Goal-Setting
5. Outline for Goal-Setting Workshop

6. Guidelines for Council Members During Goal-Setting Process
7. Criteria for Major City Goals
8. Measure Y Integration Report
9. Budget and Fiscal Policies for 2015-17
10. Pension Unfunded Liabilities White Paper

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COMMUNITY PRIORITIES SURVEY

What are the most important priorities facing the City of San Luis Obispo? The City wants your input!

Every two years, the City establishes the top priorities to make San Luis Obispo an even better place to live, work and play. The City Council then matches the resources necessary to achieve these priorities through adopting the budget in June. The adopted budget sets the City’s course of action for the next two years and helps the City to continue to provide the exceptional services and programs the community cherishes.

As the upcoming 2015-17 financial plan process unfolds, it is clear that the City is in an improved economic condition compared to the same stage of the 2013-15 plan. Revenues have continued to rebound. Development review activity is at a high level. The City has also made progress in our work to contain operating costs which in turn helps improve our overall fiscal health. Despite these positive signs, there are significant uncertainties and challenges looming. This is particularly true in relation to the on-going cost of retirement and insurance programs, and the need to fund the deferred maintenance of infrastructure. All of these factors are likely to lead to complex and competing budget decisions. Regardless of the specific fiscal circumstances, it is critical that we have an effective process for setting the most important, highest priority things for the City to do in the next two years. That’s where you can help!

2013-15 Major City Goals

- ♦ Homelessness
- ♦ Neighborhood Wellness
- ♦ Essential Services, Infrastructure, and Fiscal Health
- ♦ Bike & Pedestrian Paths
- ♦ Economic Development
- ♦ Assess & Renew the Downtown
- ♦ Skate Park

Share Your Thoughts on the City’s Priorities!

The City Council wants to hear from you about what is truly important for the community.

This survey is your opportunity to tell the City:

- ♦ What issues are important to the community?
- ♦ What priorities should the City focus on during the next two years?
- ♦ How might the City adjust other service needs to accomplish these priorities?

The City Council needs to know your thoughts on what the community’s priorities should be so that available resources can be best allocated to achieve them. Now it’s time for you to share your ideas for 2015-17 priorities.

The City needs the help of the community in two important ways:

❶ **Complete the survey** by visiting www.slocity.org/opencityhall or fill out the survey on the reverse side of this bulletin and mail it to City Hall at 990 Palm Street, 93401 or drop it by any City office.

❷ **Attend the Community Forum** on Tuesday, January 13, 2015 from 6:00 p.m. to 9:30 p.m. at the Ludwick Community Center, 864 Santa Rosa Street. This forum is an opportunity to present your ideas to the Council and discuss them with other community members.

City staff will compile the community feedback for the Council to review in advance of its goal-setting workshop on **Saturday, January 24, 2015 at 9:00 a.m.** During this public workshop, the Council will deliberate to set the Major City Goals and Other Important Objectives for the next two years.

If you have any questions about the City’s goal-setting and budget process, please contact Joe Lamers, Budget Manager, at 781-7132 or jlammers@slocity.org.

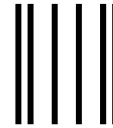


The City of San Luis Obispo is committed to including disabled persons in all of our services, programs and activities. Telecommunications Device for the Deaf (805) 781-7410.

Community Priorities for 2015-17

What should be the City's most important, highest priority goals during 2015-17?

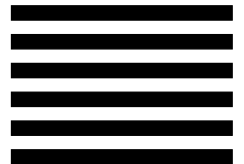
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CITY OF SAN LUIS OBISPO
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SAN LUIS OBISPO CA 93401-9938



How might the City adjust other programs & services to accomplish these priorities?

Email address (optional): _____

Providing your email will enable you to view your statement online and see statements from others. Your email address will not be included with your statement and the City will not share it.

B2-14

Fold and tape for mailing

Open City Hall Survey

The screenshot shows the City of San Luis Obispo website. At the top left is a navigation menu with links: About the Department, Programs & Services, Economic Development, Natural Resources, City Clerk, FAQs, How are we doing?, and Department Home. The main header features the city logo and a navigation bar with HOME, INFO, SIGN IN, and HELP. Below this is a banner for 'About Open City Hall' with a 'READ MORE' button. A subscription form asks for an email address. Below that are tabs for 'Open Topics' and 'Closed Topics'. The main content area features a survey titled 'What are the most important priorities for the City in 2015-2017?' with 160 responses. A 'Go to the topic' button is present. The footer includes copyright information and a language selection dropdown.

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Open Topics Closed Topics

Community Priorities Survey

What are the most important priorities for the City in 2015-2017?

No deadline is currently set

This topic has an introduction from the City of San Luis Obispo, 160 visitors and 65 responses. No deadline for participation is currently set.

[Go to the topic](#) [Read Less](#)

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CITY OF SAN LUIS OBISPO

2015-17 Financial Plan

What are the most important priorities facing the City of San Luis Obispo?

The City Council wants to hear from you about what is truly important for the community.

Of all the things that can be done to make the City an even better place to live, work and play, which are the most important?

Key Dates

Written Suggestions

Please send comments by Friday, December 19.

Comments can be submitted online at:
www.slocity.org/opencityhall

Or via mail to:

Joe Lamers, Budget Manager
990 Palm Street
San Luis Obispo, CA 93401
Fax: 781-7401
Email: jlammers@slocity.org

2015-17 Financial Plan Meetings

Budget Foundation Meeting

Tuesday, December 16, 2014, 6:00 p.m.

Community Forum

Tuesday, January 13, 2015
6:00 p.m. to 9:00 p.m.
Ludwick Community Center

Goal-Setting Workshop

Saturday, January 24, 2015
9:00 a.m. to 4:00 p.m.
City-County Library

Mid-Year Budget Review

Tuesday, February 17, 2015, 6:00 p.m.

Strategic Budget Direction & Major City Goal Programs Workshop

Tuesday, April 21, 2015, 6:00 p.m.

Budget Workshops

June 9 & 11, 2015, 5:00 p.m.
June 16, 2015, 6:00 p.m.

2015-17 Budget Adoption

Tuesday, June 23, 2015, 6:00 p.m.

Contact Information

Please submit your comments by **Friday, December 19, 2015.**

Comments can be submitted online at the City's Open Government portal: www.slocity.org/opencityhall. If you are submitting comments on behalf of a community group, business or organization, please include your organization's name within your response.

To submit comments by mail, please them to to Joe Lamers, Budget Manager, at 990 Palm Street, San Luis Obispo, CA, 93401; by fax at 781-7401; or by email at jlammers@slocity.org. For more information on the goal-setting and budget process, contact Joe at 781-7132.

For additional information on the City's Financial Plan and Goal-Setting process, visit www.slocity.org.



The City of San Luis Obispo is committed to including disabled persons in all of our services, programs and activities. Telecommunications device for the deaf: (805) 781-7410.

What Are the Most Important Needs of the City Over the Next Two Years?

The City Wants Your Input

Every two years, the City establishes the top priorities to make San Luis Obispo an even better place to live, work and play. Then the City Council matches the resources to achieve these priorities through adopting the budget in June. This sets the City's course of action for the next two years and helps the City to continue to provide the exceptional services and programs the community cherishes.

As the upcoming 2015-17 financial plan process unfolds, it is clear that the City is in an improved economic condition compared to the same stage of the 2013-15 plan. Revenues have continued to rebound. Development review activity is at a high level. The City has also made progress in our work to contain operating costs which in turn helps improve our overall fiscal health. Despite these positive signs, there are significant uncertainties and challenges looming. This is particularly true in relation to the on-going cost of retirement and insurance programs, and the need to fund the deferred maintenance of infrastructure. All of these factors are likely to lead to complex and competing budget decisions.

Regardless of the specific fiscal circumstances, it is critical that we have an effective process for setting the most important, highest priority things for the City to do in the next two years. That's where you can help!

Share Your Thoughts on the City's Priorities!

You have the opportunity to tell the City:

- What issues are important to the community?
- What priorities should the City focus on during the next two years?
- How might the City adjust other service needs to accomplish these priorities?

Major City Goals

The City Council needs to know your thoughts on what the community's priorities should be so that available resources can be best allocated to achieve them. Now it's time for you to share your ideas for 2015-17 priorities.

Major City Goals are identified as the most important, highest priority goals for the City to accomplish over the next two years.

Current Major City Goals

- Homelessness
- Neighborhood Wellness
- Essential Services, Infrastructure & Fiscal Health
- Bike & Pedestrian Paths
- Economic Development
- Assess & Renew the Downtown
- Skate Park

Your Important Role in this Process

The City needs the help of the community in two important ways:

① Provide feedback.

Community input will be presented to all Council members. It will be especially helpful if your written comments address: *what* needs you believe are the highest priority goals for the community; *why* they are important; and any creative ideas you have about *how* to achieve them, such as alternative approaches or opportunities for partnering with others.

② Attend the Community Forum on **January 13, 2015 from 6:00 p.m. to 9:00 p.m. at the Ludwick Community Center, 864 Santa Rosa Street.**

This forum is an opportunity to present your ideas to the Council and discuss them with other community members.

City staff will compile the community feedback for the Council to review in advance of its goal-setting workshop on Saturday, January 24, 2015. During this public workshop, the Council will deliberate to set the Major City Goals and Other Important Council Objectives for the next two years.

Community Forum

6:00 PM to 9:00 PM, Tuesday, January 13, 2015

Ludwick Community Center

- 6:00 **Welcome** Mayor
- 6:05 **Process, Current Goals, Local Sales Tax Priorities and Fiscal Outlook** City Manager/
Finance & IT Director
- 6:30 **Public Comment**
1. Members of public who desire to speak complete public comment cards and indicate topic. Where a group has several members present, we encourage them to select a spokesperson and have others in their group indicate support for the same position with a show of hands.
 2. We invite each speaker to address:
 - a. **What** do you recommend as a Major City Goal?
 - b. **Why** is it important to you and the City?
 - c. **How** do you suggest that it might be accomplished?
 3. Facilitator calls upon a speaker and identifies general topic.
 4. Department Head in the budget category for the topic steps up to write the idea on a flip chart sheet and clarifies any linkages with existing programs or plans.
 5. Staff posts the public comment in the relevant budget category.
 6. All participants provided with half-page “post-its” to note any suggestions or concerns about the ideas.
- 8:40 **Closing remarks** Mayor
- 8:45 **Participants Vote on Top Priorities with Dots** (no more than 1 green and orange dot per item)
- 9:00 **Adjourn**

Preparation

- Prepare handouts on budget process; current goals & objectives and local revenue measure priorities; and Community Priorities Survey results.
- Set up the room with posting area for each of the budget categories.
- Provide participants with half-page post-its.
- After receiving public comments, provide the following adhesive dots per attendee: 6 orange for top Local Sales Tax priorities and 6 green for overall goal priorities.

Community Forum Procedures

Facilitator's Role

As noted in the agenda details, the facilitator will help organize comments by general topic and encourage groups to select a spokesperson and have others in the group indicate support for the same position with a show of hands.

Documenting Testimony

Each speaker will be invited to address the “what, why, and how” of his/her suggested goal. The Department Head responsible for the related budget function (i.e., Public Safety; Public Utilities; Transportation; Leisure, Cultural and Social Services; Community Development; and General Government) will write the idea on a flip chart sheet and clarify any linkages with existing programs or plans. Staff will post the flip chart sheets with the public comments in the relevant budget functional areas on the walls.

Additional Comments

Participants will also receive half-page “post-it” notes for audience members to offer written comments such as resource suggestions or concerns to be posted next to goals.

Voting with Dots

To involve participants further and garner direct citizen feedback on all suggestions offered, “voting with dots” will be used again. At the end of the comment period, each attendee will receive adhesive dots to apply to the posted items: six green for overall goal priorities and six orange dots for top local sales tax priorities will be provided to each participant. When using the dots the same goal could receive both a green and orange dot. That decision is within the control of community member participating in the process.

Participants will be advised to avoid assigning more than one green and one orange dot to any one goal. However, because this is an informal way to gather input for the Council to be considered for the coming two year-cycle there will be no monitors or ways to prohibit participants from applying as many dots to any item as they wish. City staff will summarize the results of the forum and distribute them to the Council on January 15, 2015, to assist the Council in completing its “homework” and in preparation for the Goal-Setting Workshop.

Videotaping

It is also planned for the Community Forum to be videotaped so there will be a historical record other than the flip charts and individual recollections. This will be done in a way that will be low key (one camera, no lights) so the quality may not replicate a regular council meeting. Should the Council object to this effort, concern should be expressed at the December 16th Council meeting.

Council Member Candidate Major City Goals

Please prepare up to 7 candidates for Major City Goals below and submit them to Finance by 9:00 a.m., Tuesday, January 20, 2015. Since the Council will identify connections between the use of Measure G revenues and Major City Goals, please note which suggestions address Measure G priorities. Finance will then compile a verbatim, composite list by topic without identifying who submitted the particular statements. Please refrain from releasing your personal list so that each Council member has flexibility to review all of the submissions and discuss them at the Council Goal-Setting Workshop before staking a position.

1 <u>Measure G? Yes/No</u>
2 <u>Measure G? Yes/No</u>
3 <u>Measure G? Yes/No</u>
4 <u>Measure G? Yes/No</u>
5 <u>Measure G? Yes/No</u>
6 <u>Measure G? Yes/No</u>
7 <u>Measure G? Yes/No</u>

Suggestions for Changes in Other Programs and Services

Please provide ideas about possible changes in other programs and services to fund desired goals. Please submit them to Finance by 9:00 a.m., Tuesday, January 20, 2013. Finance will then compile a verbatim, composite list by topic without identifying who submitted the particular statements. Please refrain from releasing your personal list so that each Council member has flexibility to review all of the submissions and discuss them at the Council Goal-Setting Workshop before staking a position.

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Council Goal-Setting Workshop
8:30 AM to 4:30 PM
Saturday, January 24, 2015
City-County Library Community Room

8:30 - 9:00 a.m.	Refreshments	
9:00 - 9:05 a.m.	Welcome and Introductions	Mayor
9:05 - 9:10 a.m.	Purpose, Process & Guidelines	Facilitator
9:10 – Noon	Review Goals by Category Discuss Relationship of Goals to Current Activities Formulate and Select Candidate Goals	Council
Noon – 12:15 p.m.	[Council may accept further comments from the public that have not been previously presented]	
12:15 – 1:15	Lunch Break [staff compiles candidate goals]	
1:15 - 2:15 p.m.	Discuss and Clarify the Goals Each Member Prepares a Written Ballot Ranking the Goals	Council
2:15 - 3:15 p.m.	Break while staff tabulates the results	Staff
3:15 - 4:00 p.m.	Review and Identify Major City Goals	Council
4:00 - 4:30 p.m.	Discuss Next Steps	Council/Staff

Preparation

- Staff compiles and distributes composite list of candidate goals to Council members.
- Staff prepares a template for Council ballot sheet.
- Assign staff to enter goal statements into spreadsheet as Council formulates them.

Suggested Guidelines for Council Members During the Goal-Setting Process

1. Encourage advisory boards, community groups and citizens to submit written comments about desired goals.
2. Invite citizens to participate in Community Forum and to listen and learn from their neighbors.
3. Receive comments from community and acknowledge their input without prematurely expressing your point of view.
4. Assure the community that you are willing to listen openly to all perspectives.
5. Focus your submission of suggested goals on a short list of key priorities to target City resources (*not to exceed seven candidate goals for consideration*).
6. Avoid publicizing your submission of suggested goals. Let staff compile your submissions verbatim into a composite list of goals by category without identification of who made each suggestion. This enables you to see the whole picture.
7. Give yourself flexibility by not publicly staking positions in advance of the January 24, 2015 Council Goal-Setting Workshop.
8. Use this process as a way to learn from citizens and Council colleagues about what's important.
9. Explore areas where the Council can come together for positive action.
10. Recognize that this is an important step, but only the first step, in the planning and budgeting for the next two years.

Criteria for Major City Goals

1. Be legitimate to our genuine beliefs (real, supported).
2. Agreed upon by a Council majority.
3. Limited in number for comprehension, communication and focus.
4. Set forth in one document—the Financial Plan.
5. Be clear and understandable.
6. Established as a high priority and a real commitment.
7. Reflect major goals that cannot be achieved without Council support.
8. Can be translated into the performance goals and objectives of employees at all levels of the organization.
9. Created within a supportive atmosphere where participants are not afraid to state their suggestions for improving goals or objectives.
10. Reflect genuine consensus: while unanimous agreement is not required, they should be accepted to the point where resistance to them is reduced or eliminated.

MEASURE Y INTEGRATION REPORT - OVERVIEW

The purpose of this report is to provide the Council with information about the reporting, uses, accountability, and priorities of Measure Y funds during the most recently completed fiscal year, 2013-14.

Background

Measure Y was approved by City voters in November 2006 to preserve essential services for the community. Measure Y established a one-half percent local sales tax with an eight-year sunset clause. The original measure would have expired on March 31, 2015, however voters approved its extension for an additional eight years during the 2014 General Election when they passed Measure G. This Measure Y Integration Report details how Measure Y revenue was integrated into the budget during the most recently completed fiscal year, 2013-14, and illustrates how Measure Y expenditures supported Council goals. In the future, this report will be adjusted to report on Measure G priorities, including the additional fiscal accountability provisions contained in the new measure.

Measure Y includes provisions to ensure that consideration of this important revenue source is integrated into the financial planning process. The City's goal-setting process is designed to meet two of these requirements, as follows.

1. ***Integration into the City's budget and goal-setting process.*** The estimated revenue and proposed use of funds generated by this measure shall be an integral part of the City's budget and goal-setting process, and significant opportunities will be provided for meaningful participation by citizens in determining priority uses of these funds.
2. ***Annual citizen meeting.*** An invitation will be extended each year to the entire community asking Community members to participate in a forum to review and discuss the use of the revenue generated by this measure. City staff will also be available to meet with any group that requests a specific briefing with their members to discuss and answer questions about the revenues generated by the measure and their uses.

It is important to know that Measure Y is a general purpose measure, and the proceeds are not restricted to specific purposes. However, the language on the ballot measure approved by voters in 2006 provides examples of the types of uses that would be funded. The language on the ballot was:

“To protect and maintain essential services - such as neighborhood street paving and pothole repair; traffic congestion relief; public safety, including restoring eliminated traffic patrol, Fire Marshal and fire/paramedic training positions; flood protection; senior citizen services/facilities; neighborhood code enforcement; open space preservation and other vital general purpose services - shall the sales tax be increased by one-half cent for eight years only, with citizen oversight and independent annual financial audits?”

In short, while the ballot language provided examples of the types of uses that could be funded - based on community input received before placing the measure on the ballot - Measure Y is a general purpose tax providing Council with flexibility to respond to new circumstances and challenges.

DISCUSSION

How are Measure Y priorities determined?

Measure Y is a general purpose revenue source and the City Council maintains discretion over decisions regarding how these funds are allocated. Initially the City did surveying and public education/outreach so staff would know where to start, but priorities can change over time, depending upon circumstances. The Measure Y ballot language is always an important source of information when determining Measure Y priorities. The public goal setting process also plays an important role, which is why the public has an opportunity to weigh in on Measure Y priorities during the Community Forum.

Ultimately, the Council provided priority guidance on the use of Measure Y funds when they adopted the 2013-15 Financial Plan, and again when the Supplement and 2014-15 Budget was adopted. The Council has made great efforts in the past to connect Council goals with Measure Y priorities, and it is anticipated that this will continue to be the case as Measure G priorities are reviewed as part of the 2015-17 Financial Plan goal-setting process.

How are Measure Y Funds Used?

Measure Y funds have been used for both ongoing operations and capital projects to address the priorities identified. The following table identifies that approximately \$2.44 million of Measure Y funds were incorporated into day-to-day operations during the 2013-14 fiscal year.

2013-15 Measure Y Priorities
<ul style="list-style-type: none">• Preservation of Essential Services (Public Safety, Maintenance Services)• Infrastructure Maintenance• Neighborhood Wellness• Open Space Preservation• Transportation (Traffic Congestion Relief)

Measure Y funding allocated to ongoing day-to-day operations in 2013-14			
Operating Program		Operating Program	
Public Safety		Sweeper Operator	\$ 54,264
Traffic sergeant	\$ 163,547	Stormwater management plan:	81,344
Police patrol officer	175,883	Parks Maintenance Worker	73,102
Police Sergeant	200,199	CIP Project Management	
Downtown Patrol	310,400	Field Engineering Inspector II/III	102,617
Fire Marshall	140,289	Transportation (Mobility and Safety)	
Fire Training Officer	176,687	Building Code Enforcement Officer	91,940
Fire Administrative Assistant	81,000	Permit Technician (0.25)	18,906
Streets & Sidewalks		Student Neighborhood Assistance Pro	53,079
Street Maintenance worker	71,368	Neighborhood Code Enforcement Sp	137,905
Signal & Streetlight Tech	92,120	Traffic Engineer	92,520
Creek & Flood Protection		Open Space Preservation	
Storm Water Code Enforcement Officer	91,945	Ranger Services	47,534
Collection Operator	184,580	Open Space Wildfire reduction	3,433
Total Measure Y funding allocated to operating programs			\$ 2,444,662

To the degree that these operating programs remain priorities, the amount of Measure Y funding available for capital projects, or additional operating programs, is the difference between this amount and the total amount of Measure Y funding available. If Measure Y is expected to generate \$7 million during the 2015-16 fiscal year, and \$2.5 million is devoted to these ongoing operating programs, \$4.5 million would be available to accomplish other Measure Y priorities.

During the upcoming goal-setting process, Council will be asked to affirm if the ongoing operating programs remain a priority use of local sales tax revenues, and to prioritize the use of these funds.

Provided at the end of this report is a list of the Measure Y uses during 2013-14. This list is included in the City’s Comprehensive Annual Financial Report (CAFR) and is currently being audited by the City’s independent auditors. It provides information on the operating and capital expenditures during 2013-14 as well as a reconciliation of all Measure Y revenues and uses since 2006-07.

SUMMARY

The City’s local sales tax measure is now expected to provide over \$7 million in funding each year to enable the City to provide important and valued services to the community; for both day-to-day operating programs and one-time capital improvements. It is the Council’s obligation to prioritize the use of this resource, just as it is their job to prioritize the use of all City resources. For this reason it is important that as the Council sets goals for the 2015-17 Financial Plan, it also considers the prioritized use of local sales tax revenue.

**CITY OF SAN LUIS OBISPO, CALIFORNIA
MEASURE Y FUNDING SUMMARY SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Operating Programs		Capital Improvement Plan		
	Budget	Actual	Budget	Actual	Encumbered / Assigned
Preservation of Essential Services					
<i>Public Safety</i>					
Police Services	869,583	850,029	-	-	-
Police Vehicles	-	-	172,800	31,421	141,379
Public Safety Mobile Data Computers	-	-	184,500	-	184,500
Fire Prevention & Training	399,656	397,976	-	-	-
Extrication Equipment	-	-	60,400	60,115	-
Fire Engine/Truck Replacement: Debt Service	-	-	128,920	128,920	-
Fire Station #2 Remodel	-	-	2,700	630	2,070
Quickest Route Software	-	-	20,600	18,630	1,970
<i>Maintenance Services</i>					
Streets, Sidewalks and Traffic Signal Operations	180,836	163,488	-	-	-
Creek & Flood Protection	529,059	412,133	316,400	285,379	31,021
Parks	76,581	73,102	620,000	50,375	569,625
Project Management & Inspection	108,030	102,617	-	-	-
<i>Neighborhood Wellness</i>					
Enhanced Building & Zoning Code Enforcement	113,441	110,846	-	-	-
"SNAP" Enhancement	53,079	53,079	-	-	-
Neighborhood Code Enforcement Specialists	139,183	137,905	-	-	-
Traffic Congestion Relief					
Traffic Safety Report Implementation	-	-	25,000	-	25,000
Traffic Operations Report Implementation	-	-	30,000	-	30,000
Traffic Engineer	92,520	92,520	-	-	-
Traffic Sign Maintenance	-	-	-	-	-
Bicycle Facility Improvements	-	-	100,000	18,936	81,064
Neighborhood Traffic Improvements	-	-	20,000	4,846	15,154

CITY OF SAN LUIS OBISPO, CALIFORNIA MEASURE Y FUNDING SUMMARY SCHEDULE FOR THE FISCAL YEAR ENDED JUNE 30, 2014					
	Operating Programs		Capital Improvement Plan		
	Budget	Actual	Budget	Actual	Encumbered / Assigned
Open Space Preservation					
Open Space Acquisition	-	-	200,000	-	200,000
Ranger Services Staffing	59,300	47,534	-	-	-
Open Space Wildfire Reduction	5,000	3,433	-	-	-
Infrastructure Maintenance & Improvements					
Santa Rosa Skatepark	-	-	1,226,300	16,313	1,209,987
Street Reconstruction & Resurfacing	-	-	1,400,700	939,572	461,128
Central Irrigation Controller Replacement	-	-	163,323	163,323	-
Facility Maintenance	-	-	54,000	26,029	27,971
Jack House Exterior Painting	-	-	25,000	-	25,000
Johnson Avenue Underpass Pump	-	-	190,000	-	190,000
Library Restroom Remodel	-	-	39,000	39,000	-
Marsh Street Bridge Replacement	-	-	19,300	19,300	-
Mission Plaza Railing Upgrade	-	-	30,000	-	30,000
Olympic Pool Replastering	-	-	25,000	5,525	19,475
Pedestrian and Bicycle Pathway Maintenance	-	-	60,000	60,000	-
Sidewalk Repairs	-	-	25,000	25,000	-
Tree Maintenance Equipment	-	-	100,400	-	100,400
Sinsheimer Parking Lot Paving	-	-	80,000	166	79,834
Mission Plaza Master Plan	-	-	100,000	-	100,000
I.T. Replacement Fund	-	-	500,000	116,066	383,934
Facility Maintenance Reserve	-	-	500,000	293,479	206,521
Totals Current Projects	2,626,268	2,444,662	6,419,343	2,303,025	4,116,032

CITY OF SAN LUIS OBISPO, CALIFORNIA MEASURE Y FUNDING SUMMARY SCHEDULE FOR THE FISCAL YEAR ENDED JUNE 30, 2014					
	Operating Programs		Capital Improvement Plan		
	Budget	Actual	Budget	Actual	Encumbered / Assigned
Prior Year Encumbered/Assigned Amounts					
Transportation (Mobility and Safety)					
Traffic Safety Report Implementation	-	-	12,611	12,608	-
Traffic Sign Maintenance	-	-	44,600	44,600	-
Open Space Preservation					
Froom Ranch Improvement	-	-	10,934	8,247	2,687
Infrastructure Maintenance and Improvements					
Street Reconstruction & Resurfacing	-	-	114,516	114,516	-
Broad Street Creek Bank Reinforcement	-	-	18,318	2,689	15,629
Olympic Pool Heater Replacement	-	-	176,721	166,345	-
Playground Equipment Replacement	-	-	373,083	169,942	203,141
Maintenance Services					
Streets, Sidewalks and Traffic Signal Repairs	-	-	31,612	31,584	-
Creek & Flood Protection	-	-	35,000	-	-
Sinsheimer Stadium Bldg. Assessment	-	-	34,556	7,780	26,776
SUB-TOTAL PRIOR YEAR AMOUNTS			\$851,951	\$558,312	\$248,233
Totals	2,626,268	2,444,662	7,271,294	2,861,337	4,364,265

Measure Y Revenues & Uses Summary

Revenues:	
Carryover from 2006-07	1,000,000
Revenues for 2007-08	5,996,600
Revenues for 2008-09	5,641,400
Revenues for 2009-10	5,252,500
Revenues for 2010-11	5,616,300
Revenues for 2011-12	6,237,500
Revenues for 2012-13	6,493,800
Revenues for 2013-14	6,774,365
Total Revenues	<u>43,012,465</u>
Uses:	
Operating programs 2007-08	(1,463,700)
Capital improvement plan 2007-08	(2,434,100)
Operating programs 2008-09	(2,418,300)
Capital improvement plan 2008-09	(3,684,400)
Operating programs 2009-10	(2,267,100)
Capital improvement plan 2009-10	(2,161,200)
Operating programs 2010-11	(2,430,200)
Capital improvement plan 2010-11	(3,443,000)
Operating programs 2011-12	(2,203,900)
Capital improvement plan 2011-12	(3,967,500)
Operating programs 2012-13	(2,225,125)
Capital improvement plan 2012-13	(2,320,712)
Operating programs 2013-14	(2,444,662)
Capital improvement plan 2013-14	<u>(2,861,337)</u>
Total Uses	(36,325,235)
Contingency Reserve 2014	(1,700,000)
Encumbered or assigned for carryover for future year expenditures	<u>(4,364,265)</u>
Net available for future year appropriations	<u><u>622,964</u></u>

BUDGET AND FISCAL POLICIES

FINANCIAL PLAN PURPOSE AND ORGANIZATION

- A. **Financial Plan Objectives.** Through its Financial Plan, the City will link resources with results by:
1. Identifying community needs for essential services.
 2. Organizing the programs required to provide these essential services.
 3. Establishing program policies and goals, which define the nature and level of program services required.
 4. Identifying activities performed in delivering program services.
 5. Proposing objectives for improving the delivery of program services.
 6. Identifying and appropriating the resources required to perform program activities and accomplish program objectives.
 7. Setting standards to measure and evaluate the:
 - a. Output of program activities.
 - b. Accomplishment of program objectives.
 - c. Expenditure of program appropriations.
- B. **Two-Year Budget.** Following the City's favorable experience, the City will continue using a two-year financial plan, emphasizing long-range planning and effective program management. The benefits identified when the City's first two-year plan was prepared for 1983-85 continue to be realized:
1. Reinforcing the importance of long-range planning in managing the City's fiscal affairs.
 2. Concentrating on developing and budgeting for the accomplishment of significant objectives.
 3. Establishing realistic timeframes for achieving objectives.
 4. Creating a pro-active budget that provides for stable operations and assures the City's long-term fiscal health.
 5. Promoting more orderly spending patterns.
 6. Reducing the amount of time and resources allocated to preparing annual budgets.
- C. **Measurable Objectives.** The two-year financial plan will establish measurable program objectives and allow reasonable time to accomplish those objectives.
- D. **Second Year Budget.** Before the beginning of the second year of the two-year cycle, the Council will review progress during the first year and approve appropriations for the second fiscal year.
- E. **Operating Carryover.** Operating program appropriations not spent during the first fiscal year may be carried over for specific purposes into the second fiscal year with the approval of the City Manager.
- F. **Goal Status Reports.** The status of major program objectives will be formally reported to the Council on an ongoing, periodic basis.

BUDGET AND FISCAL POLICIES

- G. **Mid-Year Budget Reviews.** The Council will formally review the City’s fiscal condition, and amend appropriations if necessary, six months after the beginning of each fiscal year.
- H. **Balanced Budget.** The City will maintain a balanced budget over the two-year period of the Financial Plan. This means that:
1. Operating revenues must fully cover operating expenditures, including debt service.
 2. Ending fund balance (or working capital in the enterprise funds) must meet minimum policy levels. For the general and enterprise funds, this level has been established at 20% of operating expenditures.

Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation, beginning fund balance can only be used to fund capital improvement plan projects, or other “one-time,” non-recurring expenditures.

FINANCIAL REPORTING AND BUDGET ADMINISTRATION

- A. **Annual Reporting.** The City will prepare annual financial statements as follows:
1. In accordance with Charter requirements, the City will contract for an annual audit by a qualified independent certified public accountant. The City will strive for an unqualified auditors’ opinion.
 2. The City will use generally accepted accounting principles in preparing its annual financial statements, and will strive to meet the requirements of the GFOA’s Award for Excellence in Financial Reporting program.
 3. The City will issue audited financial statements within 180 days after year-end.
- B. **Interim Reporting.** The City will prepare and issue timely interim reports on the City’s fiscal status to the Council and staff. This includes: on-line access to the City’s financial management system by City staff; monthly reports to program managers; more formal quarterly reports to the Council and Department Heads; mid-year budget reviews; and interim annual reports.
- C. **Budget Administration.** As set forth in the City Charter, the Council may amend or supplement the budget at any time after its adoption by majority vote of the Council members. The City Manager has the authority to make administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end fund balances.

GENERAL REVENUE MANAGEMENT

- A. **Diversified and Stable Base.** The City will seek to maintain a diversified and stable revenue base to protect it from short-term fluctuations in any one revenue source.
- B. **Long-Range Focus.** To emphasize and facilitate long-range financial planning, the City will maintain current projections of revenues for the succeeding five years.

BUDGET AND FISCAL POLICIES

- C. **Current Revenues for Current Uses.** 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.
- D. **Interfund Transfers and Loans.** 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.

Any transfers between funds for operating purposes are clearly set forth in the Financial Plan, and can only be made by the Director of Finance & Information Technology in accordance with the adopted budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year.

In summary, interfund transfers result in a change in fund equity; interfund borrowings do not, as the intent is to repay the loan in the near term.

From time-to-time, interfund borrowings may be appropriate; however, these are subject to the following criteria in ensuring that the fiduciary purpose of the fund is met:

1. The Director of Finance & Information Technology is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 45 days. The most common use of interfund borrowing under this circumstance is for grant programs like the Community Development Block Grant, where costs are incurred before drawdowns are initiated and received. However, receipt of funds is typically received shortly after the request for funds has been made.
2. Any other interfund borrowings for cash flow or other purposes require case-by-case approval by the Council.
3. Any transfers between funds where reimbursement is not expected within one fiscal year shall not be recorded as interfund borrowings; they shall be recorded as interfund operating transfers that affect equity by moving financial resources from one fund to another.

USER FEE COST RECOVERY GOALS

A. Ongoing Review

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index. Fees may be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery.

B. User Fee Cost Recovery Levels

In setting user fees and cost recovery levels, the following factors will be considered:

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1. ***Community-Wide Versus Special Benefit.*** The level of user fee cost recovery should consider the *community-wide* versus *special service* nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
2. ***Service Recipient Versus Service Driver.*** After considering community-wide versus special benefit of the service, the concept of *service recipient* versus *service driver* should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery from the applicant is appropriate.
3. ***Effect of Pricing on the Demand for Services.*** The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly-stimulated by artificially low prices.

Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.

4. ***Feasibility of Collection and Recovery.*** Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.

C. Factors Favoring Low Cost Recovery Levels

Very low cost recovery levels are appropriate under the following circumstances:

1. There is *no* intended relationship between the amount paid and the benefit received. Almost all "social service" programs fall into this category as it is *expected* that one group will subsidize another.
2. Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
3. There is *no* intent to limit the use of (or entitlement to) the service. Again, most "social service" programs fit into this category as well as many public safety (police and fire) emergency response services. Historically, access to neighborhood and community parks would also fit into this category.
4. The service is non-recurring, generally delivered on a "peak demand" or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services also fall into this category.
5. Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might fall into this category.

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D. Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

1. The service is similar to services provided through the private sector.
2. Other private or public sector alternatives could or do exist for the delivery of the service.
3. For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
4. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
5. The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.

E. General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges:

1. Revenues should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs and organization-wide support costs such as accounting, personnel, information technology, legal services, fleet maintenance and insurance.
3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
5. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

F. Low Cost-Recovery Services

Based on the criteria discussed above, the following types of services should have very low cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for the operation as a whole should be general-purpose revenues, not user fees.

1. Delivering public safety emergency response services such as police patrol services and fire suppression.
2. Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.
3. Providing social service programs and economic development activities.

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G. Recreation Programs

The following cost recovery policies apply to the City's recreation programs:

1. Cost recovery for activities directed to adults should be relatively high.
2. Cost recovery for activities directed to youth and seniors should be relatively low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.

Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high-levels of participation in youth and senior recreation activities regardless of financial status.

3. Cost recovery goals for recreation activities are set as follows:

High-Range Cost Recovery Activities - (60% to 100%)

- a. Adult athletics
- b. Banner permit applications
- c. Child care services (except Youth STAR)
- d. Facility rentals (indoor and outdoor; excludes use of facilities for internal City uses)
- e. Triathlon
- f. Golf

Mid-Range Cost Recovery Activities - (30% to 60%)

- g. Classes
- h. Holiday in the Plaza
- i. Major commercial film permit applications

Low-Range Cost Recovery Activities- (0 to 30%)

- j. Aquatics
 - k. Batting cages
 - l. Community gardens
 - m. Junior Ranger camp
 - n. Minor commercial film permit applications
 - o. Skate park
 - p. Special events (except for Triathlon and Holiday in the Plaza)
 - q. Youth sports
 - r. Youth STAR
 - s. Teen services
 - t. Senior/boomer services
4. For cost recovery activities of less than 100%, there should be a differential in rates between residents and non-residents. However, the Director of Parks and Recreation is authorized to reduce or eliminate non-resident fee differentials when it can be demonstrated that:

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- a. The fee is reducing attendance.
 - b. And there are no appreciable expenditure savings from the reduced attendance.
5. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special-use areas, and recreation equipment for activities not sponsored or co-sponsored by the City. Such charges will generally conform to the fee guidelines described above. However, the Director of Parks and Recreation is authorized to charge fees that are closer to full cost recovery for facilities that are heavily used at peak times and include a majority of non-resident users.
 6. A vendor charge of at least 10 percent of gross income will be assessed from individuals or organizations using City facilities for moneymaking activities.
 7. Director of Parks and Recreation is authorized to offer reduced fees such as introductory rates, family discounts and coupon discounts on a pilot basis (not to exceed 18 months) to promote new recreation programs or resurrect existing ones.
 8. The Parks and Recreation Department will consider waiving fees only when the City Manager determines in writing that an undue hardship exists.

H. Development Review Programs

The following cost recovery policies apply to the development review programs:

1. Services provided under this category include:
 - a. Planning (planned development permits, tentative tract and parcel maps, rezonings, general plan amendments, variances, use permits).
 - b. Building and safety (building permits, structural plan checks, inspections).
 - c. Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments).
 - d. Fire plan check.
2. Cost recovery for these services should generally be very high. In most instances, the City's cost recovery goal should be 100%.
3. However, in charging high cost recovery levels, the City needs to clearly establish and articulate standards for its performance in reviewing developer applications to ensure that there is "value for cost."

I. Comparability With Other Communities

In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

1. Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for several reasons:

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- a. They reflect the "market" for these fees and can assist in assessing the reasonableness of San Luis Obispo's fees.
 - b. If prudently analyzed, they can serve as a benchmark for how cost-effectively San Luis Obispo provides its services.
2. However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:
- a. What level of cost recovery is their fee intended to achieve compared with our cost recovery objectives?
 - b. What costs have been considered in computing the fees?
 - c. When was the last time that their fees were comprehensively evaluated?
 - d. What level of service do they provide compared with our service or performance standards?
 - e. Is their rate structure significantly different than ours and what is it intended to achieve?
3. These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of our fees to other communities should be one factor among many that is considered in setting City fees.

ENTERPRISE FUND FEES AND RATES

- A. **Water, Sewer and Parking.** The City will set fees and rates at levels which fully cover the total direct and indirect costs—including operations, capital outlay, and debt service—of the following enterprise programs: water, sewer and parking.
- B. **Transit.** Based on targets set under the Transportation Development Act, the City will strive to cover at least twenty percent of transit operating costs with fare revenues.
- C. **Ongoing Rate Review.** The City will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate and equitable.
- D. **Franchise Fees.** In accordance with long-standing practices, the City will treat the water and sewer funds in the same manner as if they were privately owned and operated. This means assessing reasonable franchise fees in fully recovering service costs.

At 3.5%, water and sewer franchise fees are based on the mid-point of the statewide standard for public utilities like electricity and gas (2% of gross revenues from operations) and cable television (5% of gross revenues).

As with other utilities, the purpose of the franchise fee is reasonable cost recovery for the use of the City's street right-of-way. The appropriateness of charging the water and sewer funds a reasonable franchise fee for the use of City streets is further supported by the results of studies in Arizona, California, Ohio and Vermont which concluded that the leading cause for street resurfacing and reconstruction is street cuts and trenching for utilities.

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REVENUE DISTRIBUTION

The Council recognizes that generally accepted accounting principles for state and local governments discourage the “earmarking” of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City’s management of its fiscal affairs. Approval of the following revenue distribution policies does not prevent the Council from directing General Fund resources to other functions and programs as necessary.

- A. **Property Taxes.** With the passage of Proposition 13 on June 6, 1978, California cities no longer can set their own property tax rates. In addition to limiting annual increases in market value, placing a ceiling on voter-approved indebtedness, and redefining assessed valuations, Proposition 13 established a maximum county-wide levy for general revenue purposes of 1% of market value. Under subsequent state legislation, which adopted formulas for the distribution of this countywide levy, the City now receives a percentage of total property tax revenues collected countywide as determined by the State and administered by the County Auditor-Controller. The City receives 14.9% of each dollar collected in property tax after allocations to school districts.

Accordingly, while property revenues are often thought of local revenue sources, in essence they are State revenue sources, since the State controls their use and allocation.

With the adoption of a Charter revision in November 1996, which removed provisions that were in conflict with Proposition 13 relating to the setting of property tax revenues between various funds, all property tax revenues are now accounted for in the General Fund.

- B. **Gasoline Tax Subventions.** All gasoline tax revenues (which are restricted by the State for street-related purposes) will be used for maintenance activities. Since the City’s total expenditures for gas tax eligible programs and projects are much greater than this revenue source, operating transfers will be made from the gas tax fund to the General Fund for this purpose. This approach significantly reduces the accounting efforts required to meet State reporting requirements.
- C. **Transportation Development Act (TDA) Revenues.** All TDA revenues will be allocated to alternative transportation programs, including regional and municipal transit systems, bikeway improvements, and other programs or projects designed to reduce automobile usage. Because TDA revenues will not be allocated for street purposes, it is expected that alternative transportation programs (in conjunction with other state or federal grants for this purpose) will be self-supporting from TDA revenues.
- D. **Parking Fines.** All parking fine revenues will be allocated to the parking fund, except for those collected by Police staff (who are funded by the General Fund) in implementing neighborhood wellness programs.

INVESTMENTS

- A. **Responsibility.** Investments and cash management are the responsibility of the City Treasurer or designee. It is the City’s policy to appoint the Director of Finance and Information Technology as the City’s Treasurer.

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B. **Investment Objective.** 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
2. Liquidity
3. Yield

C. **Tax and Revenue Anticipation Notes: Not for Investment Purposes.** There is an appropriate role for tax and revenue anticipation notes (TRANS) in meeting legitimate short-term cash needs within the fiscal year. However, many agencies issue TRANS as a routine business practice, not solely for cash flow purposes, but to capitalize on the favorable difference between the interest cost of issuing TRANS as a tax-preferred security and the interest yields on them if re-invested at full market rates.

As part of its cash flow management and investment strategy, the City will only issue TRANS or other forms of short-term debt if necessary to meet demonstrated cash flow needs; TRANS or any other form of short-term debt financing will not be issued for investment purposes.

As long as the City maintains its current policy of maintaining fund/working capital balances that are 20% of operating expenditures, it is unlikely that the City would need to issue TRANS for cash flow purposes except in very unusual circumstances.

D. **Selecting Maturity Dates.** The City will strive to keep all idle cash balances fully invested through daily projections of cash flow requirements. To avoid forced liquidations and losses of investment earnings, cash flow and future requirements will be the primary consideration when selecting maturities.

E. **Diversification.** As the market and the City's investment portfolio change, care will be taken to maintain a healthy balance of investment types and maturities.

F. **Authorized Investments.** The City will invest only in those instruments authorized by the California Government Code Section 53601.

The City will not invest in stock, will not speculate and will not deal in futures or options. The investment market is highly volatile and continually offers new and creative opportunities for enhancing interest earnings. Accordingly, the City will thoroughly investigate any new investment vehicles before committing City funds to them.

G. **Authorized Institutions.** Current financial statements will be maintained for each institution in which cash is invested. Investments will be limited to 20 percent of the total net worth of any institution and may be reduced further or refused altogether if an institution's financial situation becomes unhealthy.

H. **Consolidated Portfolio.** 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.

I. **Safekeeping.** Ownership of the City's investment securities will be protected through third-party custodial safekeeping.

J. **Investment Management Plan.** The City Treasurer will develop and maintain an Investment Management Plan that addresses the City's administration of its portfolio, including investment strategies, practices and procedures.

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- K. **Investment Oversight Committee.** As set forth in the Investment Management Plan, this committee is responsible for reviewing the City's portfolio on an ongoing basis to determine compliance with the City's investment policies and for making recommendations to the City Treasurer (Director of Finance and Information Technology) regarding investment management practices.

Members include the City Manager, Assistant City Manager, Director of Finance & Information Technology/City Treasurer, Finance Operations Manager, the City's independent auditor, *one City Council member, and one member of the public.*

The member of the public shall be appointed by the City Council in accordance with the City's process for appointing advisory body members.

- L. **Reporting.** The City Treasurer will develop and maintain a comprehensive, well-documented investment reporting system, which will comply with Government Code Section 53607. This reporting system will provide the Council and the Investment Oversight Committee with appropriate investment performance information.

APPROPRIATIONS LIMITATION

- A. The Council will annually adopt a resolution establishing the City's appropriations limit calculated in accordance with Article XIII-B 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 affect the City's appropriations limit.
- B. The supporting documentation used in calculating the City's appropriations limit and projected appropriations subject to the limit will be available for public and Council review at least 10 days before Council consideration of a resolution to adopt an appropriations limit. The Council will generally consider this resolution in connection with final approval of the budget.
- C. The City will strive to develop revenue sources, both new and existing, which are considered non-tax proceeds in calculating its appropriations subject to limitation.
- D. The City will annually review user fees and charges and report to the Council the amount of program subsidy, if any, that is being provided by the General or Enterprise Funds.
- E. The City will actively support legislation or initiatives sponsored or approved by League of California Cities which would modify Article XIII-B of the Constitution in a manner which would allow the City to retain projected tax revenues resulting from growth in the local economy for use as determined by the Council.
- F. The City will seek voter approval to amend its appropriation limit at such time that tax proceeds are in excess of allowable limits.

FUND BALANCE AND RESERVES

- A. **Minimum Fund and Working Capital Balances.** The City will maintain a minimum fund balance of at least 20% of operating expenditures in the General Fund and a minimum working capital balance of 20% of

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operating expenditures in the water, sewer and parking enterprise funds. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Cash flow requirements.

B. Fleet Replacement. For the General Fund fleet, the City will establish and maintain a Fleet Replacement Fund to provide for the timely replacement of vehicles and related equipment with an individual replacement cost of \$15,000 or more. ~~The City will maintain a minimum fund balance in the Fleet Replacement Fund of at least 20% of the original purchase cost of the items accounted for in this fund. During the 2015-17 Financial Plan period, the City will establish and maintain a minimum fund balance in the Fleet Replacement Fund equal to \$500,000 for the emergency replacement of vehicles that are damaged beyond repair, and are either not covered under the City's property insurance program or the vehicle has a high replacement cost and insurance proceeds will be inadequate to provide for the vehicle's replacement (fire engine). Above this contingency level, the amount retained in this fund, coupled with the annual contributions received by it from any source, shall be adequate to fully fund the equipment replacements approved in the Financial Plan.~~

~~The annual contribution to this fund will generally be based on the annual use allowance, which is determined based on the estimated life of the vehicle or equipment and its original purchase cost. Interest earnings and the proceeds from the sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the Fleet Replacement Fund.~~

C. Information Technology (IT) Replacement Fund. The City will establish an IT Replacement Fund for the General Fund to provide for the timely replacement of information technology, both hardware and software, with an individual replacement cost of \$25,000 or more. ~~The City will begin building the fund balance with the long term objective of maintaining a minimum fund balance in the IT Replacement Fund of at least 20% of the original purchase costs of the items accounted for in this fund. During the 2015-17 Financial Plan period, the City will establish and maintain a minimum fund balance in this fund equal to \$400,000 for the emergency replacement of equipment that is damaged beyond repair and not covered under the City's property insurance program.~~

~~Interest earnings and the proceeds from the sale of surplus equipment as well as any related damage and insurance recoveries will be credited to the fund.~~

D. Major Facility Replacement Fund. The City will maintain a reserve within this fund for the purpose of financing the cost of improvements having a cost of \$25,000 or more to city-owned, general government building and structures. The amount retained in this fund, coupled with annual contributions received by it from any source, shall be adequate to fully fund the improvements included in the five-year Capital Improvement Plan.

E. Water and Sewer Rate Stabilization Reserves. The City will maintain a reserve for the purposes of offsetting unanticipated fluctuations in Water Fund or Sewer Fund revenues to provide financial stability, including the stability of revenues and the rates and charges related to each Enterprise. The funding target for the Rate Stabilization Reserve will be 10% of sales revenue in the Water Fund and 5% of sales revenue in the Sewer Fund.

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Conditions for utilization and plan for replenishment of the reserve will be brought to Council for its consideration during the preparation and approval of the Financial Plan or as may become necessary during any fiscal year.

- F. **Future Capital Project Designations.** The Council may designate specific fund balance levels for future development of capital projects that it has determined to be in the best long-term interests of the City. For example, replacement of critical information technology infrastructure or other projects.
- G. **Other Designations and Reserves.** In addition to the designations noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements; reserves for encumbrances; and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.

CAPITAL IMPROVEMENT MANAGEMENT

- A. **CIP Projects: \$25,000 or More.** Construction projects and equipment purchases which cost \$25,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than \$25,000 will be included with the operating program budgets. Such projects are accounted for in the Capital Outlay Fund.
- B. **CIP Purpose.** The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a five-year plan organized into the same functional groupings used for the operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the City's existing fixed assets.
- C. **Project Manager.** Every CIP project will have a project manager who will prepare the project proposal, ensure that required phases are completed on schedule, authorize all project expenditures, ensure that all regulations and laws are observed, and periodically report project status.
- D. **CIP Review Committee.** Headed by the City Manager or designee, this Committee will review project proposals, determine project phasing, recommend project managers, review and evaluate the draft CIP budget document, and report CIP project progress on an ongoing basis.
- E. **CIP Phases.** The CIP will emphasize project planning, with projects progressing through at least two and up to ten of the following phases:
1. **Designate.** Appropriates funds based on projects designated for funding by the Council through adoption of the Financial Plan.
 2. **Study.** Concept design, site selection, feasibility analysis, schematic design, environmental determination, property appraisals, scheduling, grant application, grant approval, specification preparation for equipment purchases.
 3. **Environmental Review.** EIR preparation, other environmental studies.
 4. **Real Property Acquisitions.** Property acquisition for projects, if necessary.
 5. **Site Preparation.** Demolition, hazardous materials abatements, other pre-construction work.

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6. **Design.** Final design, plan and specification preparation and construction cost estimation.
7. **Construction.** Construction contracts.
8. **Construction Management.** Contract project management and inspection, soils and material tests, other support services during construction.
9. **Equipment Acquisitions.** Vehicles, heavy machinery, computers, office furnishings, other equipment items acquired and installed independently from construction contracts.
10. **Debt Service.** Installment payments of principal and interest for completed projects funded through debt financings. Expenditures for this project phase are included in the Debt Service section of the Financial Plan.

Generally, it will become more difficult for a project to move from one phase to the next. As such, more projects will be studied than will be designed, and more projects will be designed than will be constructed or purchased during the term of the CIP.

- F. **CIP Appropriation.** The City's annual CIP appropriation for study, design, acquisition and/or construction is based on the projects designated by the Council through adoption of the Financial Plan. Adoption of the Financial Plan CIP appropriation does not automatically authorize funding for specific project phases. This authorization generally occurs only after the preceding project phase has been completed and approved by the Council and costs for the succeeding phases have been fully developed.

Accordingly, project appropriations are generally made when contracts are awarded. If project costs at the time of bid award are less than the budgeted amount, the balance will be unappropriated and returned to fund balance or allocated to another project. If project costs at the time of bid award are greater than budget amounts, five basic options are available:

1. Eliminate the project.
2. Defer the project for consideration to the next Financial Plan period.
3. Rescope or change the phasing of the project to meet the existing budget.
4. Transfer funding from another specified, lower priority project.
5. Appropriate additional resources as necessary from fund balance.

- G. **CIP Budget Carryover.** Appropriations for CIP projects lapse three years after budget adoption. Projects which lapse from lack of project account appropriations may be resubmitted for inclusion in a subsequent CIP. Project accounts, which have been appropriated, will not lapse until completion of the project phase.

- H. **Program Objectives.** Project phases will be listed as objectives in the program narratives of the programs, which manage the projects.

- I. **Public Art.** CIP projects will be evaluated during the budget process and prior to each phase for conformance with the City's public art policy, which generally requires that 1% of eligible project construction costs be set aside for public art. Excluded from this requirement are underground projects, utility infrastructure projects, funding from outside agencies, and costs other than construction such as study, environmental review, design, site preparation, land acquisition and equipment purchases.

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It is generally preferred that public art be incorporated directly into the project, but this is not practical or desirable for all projects; in this case, an in-lieu contribution to public art will be made. To ensure that funds are adequately budgeted for this purpose regardless of whether public art will be directly incorporated into the project, funds for public art will be identified separately in the CIP.

In 2013-15, the City will continue to fund public art at the same level required by the private sector: 0.5%.

- J. **General Plan Consistency Review.** The Planning Commission will review the Preliminary CIP for consistency with the General Plan and provide its findings to the Council prior to adoption.

CAPITAL FINANCING AND DEBT MANAGEMENT

A. Capital Financing

1. The City will consider the use of debt financing only for one-time capital improvement projects and only under the following circumstances:
 - a. When the project's useful life will exceed the term of the financing.
 - b. When project revenues or specific resources will be sufficient to service the long-term debt.
2. Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term instruments such as revenue, tax or bond anticipation notes is excluded from this limitation. (See Investment Policy)
3. Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes or developer agreements when benefits can be specifically attributed to users of the facility. Accordingly, development impact fees should be created and implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary community facilities.
4. Transportation impact fees are a major funding source in financing transportation system improvements. However, revenues from these fees are subject to significant fluctuation based on the rate of new development. Accordingly, the following guidelines will be followed in designing and building projects funded with transportation impact fees:
 - a. The availability of transportation impact fees in funding a specific project will be analyzed on a case-by-case basis as plans and specification or contract awards are submitted for City Manager or Council approval.
 - b. If adequate funds are not available at that time, the Council will make one of two determinations:
 - Defer the project until funds are available.
 - Based on the high-priority of the project, advance funds from the General Fund, which will be reimbursed as soon as funds become available. Repayment of General Fund advances will be the first use of transportation impact fee funds when they become available.

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5. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:

- a. Factors Favoring Pay-As-You-Go Financing*

1. Current revenues and adequate fund balances are available or project phasing can be accomplished.
 2. Existing debt levels adversely affect the City's credit rating.
 3. Market conditions are unstable or present difficulties in marketing.

- b. Factors Favoring Long Term Financing*

1. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
 2. The project securing the financing is of the type, which will support an investment grade credit rating.
 3. Market conditions present favorable interest rates and demand for City financings.
 4. A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
 5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
 6. The life of the project or asset to be financed is 10 years or longer.
 7. Vehicle leasing when market conditions and operational circumstances present favorable opportunities.

B. Debt Management

1. The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.
2. An internal feasibility analysis 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.
3. The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.
4. The City will seek an investment grade rating (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.

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5. The City will monitor all forms of debt annually coincident with the City's Financial Plan preparation and review process and report concerns and remedies, if needed, to the Council.
6. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
7. The City will maintain good, ongoing communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).

C. Debt Capacity

1. **General Purpose Debt Capacity.** The City will carefully monitor its levels of general-purpose debt. Because our general purpose debt capacity is limited, it is important that we only use general purpose debt financing for high-priority projects where we cannot reasonably use other financing methods for two key reasons:
 - a. Funds borrowed for a project today are not available to fund other projects tomorrow.
 - b. Funds committed for debt repayment today are not available to fund operations in the future.

In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Fund revenues; and in no case should they exceed 15%. Further, direct debt will not exceed 2% of assessed valuation; and no more than 60% of capital improvement outlays will be funded from long-term financings.

2. **Enterprise Fund Debt Capacity.** The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

D. Independent Disclosure Counsel

The following criteria will be used on a case-by-case basis in determining whether the City should retain the services of an independent disclosure counsel in conjunction with specific project financings:

1. The City will generally not retain the services of an independent disclosure counsel when all of the following circumstances are present:
 - a. The revenue source for repayment is under the management or control of the City, such as general obligation bonds, revenue bonds, lease-revenue bonds or certificates of participation.
 - b. The bonds will be rated or insured.
2. The City will consider retaining the services of an independent disclosure counsel when one or more of following circumstances are present:
 - a. The financing will be negotiated, and the underwriter has not separately engaged an underwriter's counsel for disclosure purposes.

BUDGET AND FISCAL POLICIES

- b. The revenue source for repayment is not under the management or control of the City, such as land-based assessment districts, tax allocation bonds or conduit financings.
- c. The bonds will not be rated or insured.
- d. The City's financial advisor, bond counsel or underwriter recommends that the City retain an independent disclosure counsel based on the circumstances of the financing.

E. Land-Based Financings

1. **Public Purpose.** There will be a clearly articulated public purpose in forming an assessment or special tax district in financing public infrastructure improvements. This should include a finding by the Council as to why this form of financing is preferred over other funding options such as impact fees, reimbursement agreements or direct developer responsibility for the improvements.
2. **Eligible Improvements.** Except as otherwise determined by the Council when proceedings for district formation are commenced, preference in financing public improvements through a special tax district shall be given for those public improvements that help achieve clearly identified community facility and infrastructure goals in accordance with adopted facility and infrastructure plans as set forth in key policy documents such as the General Plan, Specific Plan, Facility or Infrastructure Master Plans, or Capital Improvement Plan.

Such improvements include study, design, construction and/or acquisition of:

- a. Public safety facilities.
- b. Water supply, distribution and treatment systems.
- c. Waste collection and treatment systems.
- d. Major transportation system improvements, such as freeway interchanges; bridges; intersection improvements; construction of new or widened arterial or collector streets (including related landscaping and lighting); sidewalks and other pedestrian paths; transit facilities; and bike paths.
- e. Storm drainage, creek protection and flood protection improvements.
- f. Parks, trails, community centers and other recreational facilities.
- g. Open space.
- h. Cultural and social service facilities.
- i. Other governmental facilities and improvements such as offices, information technology systems and telecommunication systems.

School facilities will not be financed except under appropriate joint community facilities agreements or joint exercise of powers agreements between the City and school districts.

3. **Active Role.** Even though land-based financings may be a limited obligation of the City, we will play an active role in managing the district. This means that the City will select and retain the financing team, including the financial advisor, bond counsel, trustee, appraiser, disclosure counsel, assessment engineer and underwriter. Any costs incurred by the City in retaining these services will generally be the responsibility of the property owners or developer, and will be advanced via a deposit when an application is filed; or will be paid on a contingency fee basis from the proceeds from the bonds.

BUDGET AND FISCAL POLICIES

4. ***Credit Quality.*** When a developer requests a district, the City will carefully evaluate the applicant's financial plan and ability to carry the project, including the payment of assessments and special taxes during build-out. This may include detailed background, credit and lender checks, and the preparation of independent appraisal reports and market absorption studies. For districts where one property owner accounts for more than 25% of the annual debt service obligation, a letter of credit further securing the financing may be required.
5. ***Reserve Fund.*** A reserve fund should be established in the lesser amount of: the maximum annual debt service; 125% of the annual average debt service; or 10% of the bond proceeds.
6. ***Value-to-Debt Ratios.*** The minimum value-to-debt ratio should generally be 4:1. This means the value of the property in the district, with the public improvements, should be at least four times the amount of the assessment or special tax debt. In special circumstances, after conferring and receiving the concurrence of the City's financial advisor and bond counsel that a lower value-to-debt ratio is financially prudent under the circumstances, the City may consider allowing a value-to-debt ratio of 3:1. The Council should make special findings in this case.
7. ***Appraisal Methodology.*** Determination of value of property in the district shall be based upon the full cash value as shown on the ad valorem assessment roll or upon an appraisal by an independent Member Appraisal Institute (MAI). The definitions, standards and assumptions to be used for appraisals shall be determined by the City on a case-by-case basis, with input from City consultants and district applicants, and by reference to relevant materials and information promulgated by the State of California, including the Appraisal Standards for Land-Secured Financings prepared by the California Debt and Investment Advisory Commission.
8. ***Capitalized Interest During Construction.*** Decisions to capitalize interest will be made on case-by-case basis, with the intent that if allowed, it should improve the credit quality of the bonds and reduce borrowing costs, benefiting both current and future property owners.
9. ***Maximum Burden.*** Annual assessments (or special taxes in the case of Mello-Roos or similar districts) should generally not exceed 1% of the sales price of the property; and total property taxes, special assessments and special taxes payments collected on the tax roll should generally not exceed 2%.
10. ***Benefit Apportionment.*** Assessments and special taxes will be apportioned according to a formula that is clear, understandable, equitable and reasonably related to the benefit received by—or burden attributed to—each parcel with respect to its financed improvement. Any annual escalation factor should generally not exceed 2%.
11. ***Special Tax District Administration.*** In the case of Mello-Roos or similar special tax districts, the total maximum annual tax should not exceed 110% of annual debt service. The rate and method of apportionment should include a back-up tax in the event of significant changes from the initial development plan, and should include procedures for prepayments.
12. ***Foreclosure Covenants.*** In managing administrative costs, the City will establish minimum delinquency amounts per owner, and for the district as a whole, on a case-by-case basis before initiating foreclosure proceedings.

BUDGET AND FISCAL POLICIES

13. **Disclosure to Bondholders.** In general, each property owner who accounts for more than 10% of the annual debt service or bonded indebtedness must provide ongoing disclosure information annually as described under SEC Rule 15(c)-12.
14. **Disclosure to Prospective Purchasers.** Full disclosure about outstanding balances and annual payments should be made by the seller to prospective buyers at the time that the buyer bids on the property. It should not be deferred to after the buyer has made the decision to purchase. When appropriate, applicants or property owners may be required to provide the City with a disclosure plan.

F. Conduit Financings

1. The City will consider requests for conduit financing on a case-by-case basis using the following criteria:
 - a. The City's bond counsel will review the terms of the financing, and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant.
 - b. There is a clearly articulated public purpose in providing the conduit financing.
 - c. The applicant is capable of achieving this public purpose.
2. This means that the review of requests for conduit financing will generally be a two-step process:
 - a. First asking the Council if they are interested in considering the request, and establishing the ground rules for evaluating it.
 - b. And then returning with the results of this evaluation, and recommending approval of appropriate financing documents if warranted.

This two-step approach ensures that the issues are clear for both the City and applicant, and that key policy questions are answered.

3. The workscope necessary to address these issues will vary from request to request, and will have to be determined on a case-by-case basis. Additionally, the City should generally be fully reimbursed for our costs in evaluating the request; however, this should also be determined on a case-by-case basis.

B. Refinancings

1. **General Guidelines.** Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered (within federal tax law constraints) under the following conditions:
 - a. There is a net economic benefit.
 - b. It is needed to modernize covenants that are adversely affecting the City's financial position or operations.
 - c. The City wants to reduce the principal outstanding in order to achieve future debt service savings, and it has available working capital to do so from other sources.
2. **Standards for Economic Savings.** In general, refinancings for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.

BUDGET AND FISCAL POLICIES

- a. Refinancings that produce net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt.
- b. Refinancings with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.

HUMAN RESOURCE MANAGEMENT

A. Regular Staffing

1. The budget will fully appropriate the resources needed for authorized regular staffing and will limit programs to the regular staffing authorized.
2. Regular employees will be the core work force and the preferred means of staffing ongoing, year-round program activities that should be performed by full-time City employees rather than independent contractors. The City will strive to provide competitive compensation and benefit schedules for its authorized regular work force. Each regular employee will:
 - a. Fill an authorized regular position.
 - b. Be assigned to an appropriate bargaining unit.
 - c. Receive salary and benefits consistent with labor agreements or other compensation plans.
3. To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
 - a. The Council will authorize all regular positions.
 - b. The Human Resources Department will coordinate and approve the hiring of all regular and temporary employees.
 - c. All requests for additional regular positions will include evaluations of:
 - The necessity, term and expected results of the proposed activity.
 - Staffing and materials costs including salary, benefits, equipment, uniforms, clerical support and facilities.
 - The ability of private industry to provide the proposed service.
 - Additional revenues or cost savings, which may be realized.
4. Periodically, and before any request for additional regular positions, programs will be evaluated to determine if they can be accomplished with fewer regular employees. (See Productivity Review Policy)
5. Staffing and contract service cost ceilings will limit total expenditures for regular employees, temporary employees, and independent contractors hired to provide operating and maintenance services.

B. Temporary Staffing

BUDGET AND FISCAL POLICIES

1. The hiring of temporary employees will not be used as an incremental method for expanding the City's regular work force.
2. Temporary employees include all employees other than regular employees, elected officials and volunteers. Temporary employees will generally augment regular City staffing as extra-help employees, seasonal employees, contract employees, interns and work-study assistants.
3. The City Manager and Department Heads will encourage the use of temporary rather than regular employees to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less than full-time, year-round staffing is required.

Under this guideline, temporary employee hours will generally not exceed 50% of a regular, full-time position (1,000 hours annually). There may be limited circumstances where the use of temporary employees on an ongoing basis in excess of this target may be appropriate due to unique programming or staffing requirements. However, any such exceptions must be approved by the City Manager based on the review and recommendation of the Human Resources Director.

4. Contract employees are defined as temporary employees with written contracts approved by the City Manager who may receive approved benefits depending on hourly requirements and the length of their contract. Contract employees will generally be used for medium-term (generally between six months and two years) projects, programs or activities requiring specialized or augmented levels of staffing for a specific period.

The services of contract employees will be discontinued upon completion of the assigned project, program or activity. Accordingly, contract employees will not be used for services that are anticipated to be delivered on an ongoing basis.

C. Overtime Management

1. Overtime should be used only when necessary and when other alternatives are not feasible or cost effective.
2. All overtime must be pre-authorized by a department head or delegate unless it is assumed pre-approved by its nature. For example, overtime that results when an employee is assigned to standby and/or must respond to an emergency or complete an emergency response.
3. Departmental operating budgets should reflect anticipated annual overtime costs and departments will regularly monitor overtime use and expenditures.
4. When considering the addition of regular or temporary staffing, the use of overtime as an alternative will be considered. The department will take into account:
 - a. The duration that additional staff resources may be needed.
 - b. The cost of overtime versus the cost of additional staff.
 - c. The skills and abilities of current staff.
 - d. Training costs associated with hiring additional staff.

BUDGET AND FISCAL POLICIES

- e. The impact of overtime on existing staff.

D. Independent Contractors

Independent contractors are not City employees. They may be used in two situations:

1. Short-term, peak workload assignments to be accomplished using personnel contracted through an outside temporary employment agency (OEA). In this situation, it is anticipated that City staff will closely monitor the work of OEA employees and minimal training will be required. However, they will always be considered the employees of the OEA and not the City. All placements through an OEA will be coordinated through the Human Resources Department and subject to the approval of the Human Resources Director.
2. Construction of public works projects and delivery of operating, maintenance or specialized professional services not routinely performed by City employees. Such services will be provided without close supervision by City staff, and the required methods, skills and equipment will generally be determined and provided by the contractor. Contract awards will be guided by the City's purchasing policies and procedures. (See Contracting for Services Policy)

PRODUCTIVITY

Ensuring the “delivery of service with value for cost” is one of the key concepts embodied in the City's Mission Statement (San Luis Obispo Style— Quality With Vision). To this end, the City will constantly monitor and review our methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible.

This review process encompasses a wide range of productivity issues, including:

- A. Analyzing systems and procedures to identify and remove unnecessary review requirements.
- B. Evaluating the ability of new technologies and related capital investments to improve productivity.
- C. Developing the skills and abilities of all City employees.
- D. Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
- E. Evaluating the ability of the private sector to perform the same level of service at a lower cost.
- F. Periodic formal reviews of operations on a systematic, ongoing basis.
- G. Maintaining a decentralized approach in managing the City's support service functions. Although some level of centralization is necessary for review and control purposes, decentralization supports productivity by:
 1. Encouraging accountability by delegating responsibility to the lowest possible level.
 2. Stimulating creativity, innovation and individual initiative.
 3. Reducing the administrative costs of operation by eliminating unnecessary review procedures.

BUDGET AND FISCAL POLICIES

4. Improving the organization's ability to respond to changing needs, and identify and implement cost-saving programs.
 5. Assigning responsibility for effective operations and citizen responsiveness to the department.
- H. [Maintaining City purchasing policies and procedures that are as efficient and effective as possible.](#)

CONTRACTING FOR SERVICES

A. General Policy Guidelines

1. Contracting with the private sector for the delivery of services provides the City with a significant opportunity for cost containment and productivity enhancements. As such, the City is committed to using private sector resources in delivering municipal services as a key element in our continuing efforts to provide cost-effective programs.
2. Private sector contracting approaches under this policy include construction projects, professional services, outside employment agencies and ongoing operating and maintenance services.
3. In evaluating the costs of private sector contracts compared with in-house performance of the service, indirect, direct, and contract administration costs of the City will be identified and considered.
4. Whenever private sector providers are available and can meet established service levels, they will be seriously considered as viable service delivery alternatives using the evaluation criteria outlined below.
5. For programs and activities currently provided by City employees, conversions to contract services will generally be made through attrition, reassignment or absorption by the contractor.

B. Evaluation Criteria

Within the general policy guidelines stated above, the cost-effectiveness of contract services in meeting established service levels will be determined on a case-by-case basis using the following criteria:

1. Is a sufficient private sector market available to competitively deliver this service and assure a reasonable range of alternative service providers?
2. Can the contract be effectively and efficiently administered?
3. What are the consequences if the contractor fails to perform, and can the contract reasonably be written to compensate the City for any such damages?
4. Can a private sector contractor better respond to expansions, contractions or special requirements of the service?
5. Can the work scope be sufficiently defined to ensure that competing proposals can be fairly and fully evaluated, as well as the contractor's performance after bid award?
6. Does the use of contract services provide us with an opportunity to redefine service levels?
7. Will the contract limit our ability to deliver emergency or other high priority services?

BUDGET AND FISCAL POLICIES

8. Overall, can the City successfully delegate the performance of the service but still retain accountability and responsibility for its delivery?

FROM: Wayne Padilla, Director of Finance & Information Technology

SUBJECT: WHITE PAPER DISCUSSION OF THE ELEMENTS OF A POLICY TO PREPAY THE CITY'S UNFUNDED OBLIGATIONS

DATE: DECEMBER 4, 2014

REPORT IN BRIEF

Included in the 2013-15 Major City Goal for Fiscal Health was the direction to staff to prepare a cost/benefit analysis regarding the City's ability to prepay its unfunded pension liabilities. This report discusses what those liabilities are and includes a discussion about the City's unfunded liability for its post-retirement insurance program. After review of other agencies' plans to prepay their retirement obligation and discussion with the City's actuary at the California Public Employees Retirement System, staff is recommending further analysis of whether additional resources beyond those which are already built into the City's PERS rates should be applied as prepayments against these liabilities. If the council concurs, this analysis will be presented to the City Council in sufficient time so whatever the policy determination, it can be incorporated into the Strategic Budget Direction presented to the City Council in April 2015.

DISCUSSION

Background

A component of the work program supporting Council's Major City Goal of Fiscal Health in the 2013-15 Financial Plan directed staff to prepare a cost/benefit analysis regarding the City's ability to make payments on the CalPERS Tier 1 safety side fund, other pension obligations, or to offset ongoing CalPERS employer rate increases, and to present the analysis with recommendations to the City Council. A report providing this analysis was presented to the City Council on April 15, 2014. At that time the Council approved staff's recommendation to utilize excess General Fund reserve amounts to prepay the retrospective deposit obligation in the amount of \$2.065 million that was owed to the CJPIA for the liability insurance program because the immediate savings were larger than that which would have been obtained if the amount had been used to prepay a portion of the Safety Side Fund liability. Council also authorized a prepayment in the amount of \$935,000 to be applied against the Safety Side Fund liability owed to CalPERS.

At that time a commitment was made to return to the City Council with a recommendation for how the City's unfunded liabilities can be paid down over time. This report provides information regarding the steps taken by other public agencies as they addressed their own unfunded retirement liabilities and discusses the advantages of making prepayments against the City's unfunded liabilities. Also discussed is a strategy for a sustainable method of making future prepayments that can be developed into a formal policy for future adoption by the City Council.

The Retirement Benefit Program

The City provides retirement benefits for full-time employees through the California Public Employees Retirement System (CalPERS). Employees who serve as sworn public safety

officers (police officers and fire fighters) are members of the Safety Plan which has three benefit tiers:

1. The first provides a 3% at age 50 benefit
2. The second tier for police provides a 2% at age 50 benefit, while the second tier for fire personnel provides a 3% at age 55 benefit
3. The third tier program for both police and fire personnel provides a 2.7% at age 57 benefit

Employees who work in other capacities such as planners and clerical staff are members of the Miscellaneous Plan, which also has three benefit tiers.

1. The first tier provides a 2.7% at age 55 benefit
2. The second tier provides a 2% at age 60 benefit
3. The third tier provides a 2% at age 62 benefit

CalPERS establishes the annual employer contribution rate that is charged against the City’s payroll costs for eligible employees. The safety pool contribution rate is comprised of these components:

1. Normal Cost, which is the amount needed to fund benefits earned by active employees in the upcoming year
2. Unfunded Rate which is the amount charged to pay down the pool’s unfunded liability
3. Amortization of Side Fund which is the amount required to amortize the safety side fund liability over 22 years

In addition to the employer contribution rate, CalPERS sets the member contribution rate which is paid by each employee through a payroll deduction. The amounts of each rate applicable to 2014-15 are shown below:

	Police			Fire		
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
Normal Cost	20.128%	15.973%	12.25%	20.128%	17.128%	12.25%
Unfunded Rate	9.428%	5.49%		9.428%	5.937%	
Amortization of Side Fund	15.645%			15.645%		
Employee Contribution	9.0%	9%	12.25%	9%	9%	12.25%

Miscellaneous Plan	
Normal Cost	10.615%
Unfunded Rate	15.640%
Employee Contribution	8.000%

Starting in 2015-16, CalPERS has changed the funding requirements for the Safety Pool Plan so that all pool members will pay a fixed amount towards the unfunded liability instead of an employer rate multiplied by the actual safety payroll processed by the City. The effective rates and fixed amount to be paid for 2015-16 are shown in the table below.

	Police			Fire		
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
Normal Cost	20.23%	15.373%	12.250%	20.23%	17.293%	12.250%
Amortization of Unfunded*						
Employee Contribution	9.00%	9.000%	12.250%	9.00%	9.000%	12.250%

*The unfunded component of the annual employer charge for the Tier 1 program has been replaced by a fixed dollar amount payment. This amount is \$2,948,165; Tier 2 and 3 programs do not have an unfunded rate component.

Miscellaneous Plan	
Normal Cost	10.656%
Unfunded Rate	17.644%
Employee Contribution	7.930%

Each October, CalPERS provides an actuarial valuation report for each benefit plan that updates certain values to reflect changes in plan activity since the previous valuation. These changes include but are not limited to:

- ✓ The difference between the expected 7.5% rate of return and the actual amount realized
- ✓ Changes in the number of plan members who retire each year
- ✓ Changes in the number of new plan members
- ✓ Changes in the annual payroll provided to existing members of the plan

The actuarial valuations also provide new information on the variables associated with maintaining the plan, such as the amount of the unfunded liability and the annual Employer Contribution rate described above, which represents the amount for every dollar of safety payroll that the City is required to pay from the start of the following fiscal year. The information used for this report is taken from the latest valuation report that was issued for the year ending June 30, 2013.

Interest Yields and Discount Factors

The City places its idle cash in several different investments. For short term cash needs, the City uses the state Local Agency Investment Fund which pays an annual return of approximately .25%. For monies invested for longer terms, the interest rate varies from approximately .50% to 1.9%. For the quarter ending September 30, 2014 the yield on the City’s portfolio was .82% As

discussed in the next section of this report, CalPERS assumes that all investments and liabilities will return 7.5% each year. When this does not occur and other changes in variables do not mitigate the shortfall, the unfunded liability amounts increase.

The currently adopted CalPERS actuarial assumptions rely on an investment return of at least 7.5% on all of the amounts it invests as well as on all of the amounts that are owed to it (i.e. unfunded liabilities such as the safety side fund amount). This is known as the discount factor. If the actual rate of return is less than this amount and all other factors remain the same (i.e. number of annual retirements, mortality, compensation adjustments, etc.), later annual valuations will reflect a greater unfunded liability. This means that while the city may prepay all or a portion of the safety side fund liability, at any time that CalPERS does not earn the required rate of return on the monies that the city has paid, an additional liability may be created in the safety pool benefit program that would not reappear as a separate safety side fund obligation. This generally results in increases to contribution rates for the safety pool and the City's safety pool liability would be increased based on its proportional share of all pool liabilities. As discussed later, the City benefits from the effects of pooling when market losses are realized by CalPERS.

What are the City's Unfunded Liabilities?

Retirement Programs

As previously discussed, the City maintains its retirement benefit program with the California Public Employees Retirement System (CalPERS). These programs provide retirement benefits for both sworn public safety and non-sworn staff members. These retirement benefit programs are known as the safety and miscellaneous plans, respectively.

Prior to July 2007, the City maintained a standalone public safety retirement plan through CalPERS. Beginning with the June 30, 2003 actuarial valuation CalPERS created risk pools in order to combine individual plans having less than 100 members with the benefits of risk sharing resulting from the pooling of resources. When the City joined the safety pool in 2007, CalPERS created the safety side fund to account for the difference between the funded status of the City's standalone safety plan and that of the safety pool. At the time that the City joined the safety pool, its standalone safety plan had an unfunded liability known as the safety side fund liability which totals \$24.6 million according to the latest CalPERS actuarial report as of June 30, 2013. The safety plan's share of the safety pool's unfunded liability which is an additional amount owed to CalPERS as of June 30, 2013 is \$29.2 million. The total unfunded liability at June 30, 2013 for the safety plan is \$53.8 million based on the market value of plan assets. This amount is comprised of 3 components, each with their own amortization period which is outlined as follows:

- The safety side fund (\$24.6 million) which has a 21 year amortization period;
- The pre-2013 pool amount (\$15.3 million) which has a 22 year amortization period;
The plan's share of asset gains and losses (\$14.1 million) which has a 30 year amortization period.

The miscellaneous plan, which is not part of a pool, also has an unfunded liability of \$61.8 million as of June 30, 2013 based on the market value of plan assets. Employees who participate in the miscellaneous plan represent programs that are funded from the General and Enterprise Funds. Accordingly, any changes in funding rates impact all of these programs.

It is very important to note that overall, the current funding level is set to retire all components of the liability within a 30 year period.

Other Post-Employment Benefits (OPEB)

In addition to the liabilities that exist for the retirement program, the City also maintains a retiree health benefit program in accordance with the requirements of the CalPERS Health Benefit Program. This program provides retirees who qualify with a \$119.00 monthly benefit toward the cost of their health insurance premiums. (There is a group of 6 retirees for whom the City contributes more to the cost of their health insurance premiums until they reach age 65 or pass away.) The City has been a member of this program since 1993 and entered into an agreement with the California Employers' Benefit Trust (CERBT) to pre-fund the City's OPEB liability during the 2008-2009 fiscal year. Under the current funding plan, the City is on track to retire the unfunded liability in 23 years.

An actuarial valuation was completed on April 15, 2014 for the year ending June 30, 2013 which reported that the unfunded liability as of June 30, 2013 was \$4.4 million based on the actuarial value of assets. The annual contribution toward the cost of this benefit program is currently \$588,000. This amount is made up of the City's share of cost to prefund the unfunded liability (\$297,000) and premium contributions made by retirees who purchase their health insurance under the City's health insurance program.

A recent change has been made to the Actuarial Standards of Practice rules that will require the calculation of an implied subsidy starting in two years. An implied subsidy is an actuarially determined liability that results from allowing retirees to both purchase their insurance and obtain the post-retirement benefit at the same rates as active employees. Because the cost of health care increases with age, and because retirees are older than the population of active employees, the true cost of providing health care benefits to retirees is generally higher than the amount reflected in the health insurance premium cost. This reporting change will result in an increase in the amount of the unfunded liability prepayment portion of the Annual Required Contribution (ARC) to reflect the cost associated with the higher liability starting in 2016-17. The estimated increase in cost for that year is \$383,000. (the General Fund provides 79% of the funding for this program based on the distribution of employees among the various programs operated by the City).

In the latest valuation report that was completed as of June 30, 2013, the actuary calculated the implied subsidy using the actuarial value of assets to be \$5.0 million. As a result, the combined total of the OPEB unfunded liability is \$9.4 million as of June 30, 2013.

The Effects of GASB Changes on Pension and OPEB Reporting

While the City has been reporting its unfunded liabilities in its Comprehensive Annual Financial Report each year in accordance with the current requirements of Governmental Accounting Standards Board pronouncement #27, starting with the financial statements that will be prepared for the Fiscal Year ending June 30, 2015 all cities must report their unfunded pension liability on their Statement of Net Position in accordance with GASB pronouncement #68. This change in reporting means that for the first time, the unfunded pension liability must be measured using the fair market value of assets and reported on the agency-wide balance sheet. Additional documentation regarding the City's participation in the retirement program will also be provided in accordance with the pronouncement.

The change in reporting requirement is intended to create a more prominent presentation of the unfunded liability, but is not intended to change the manner in which the City continues to operate or fund its operations. After the change in presentation method is made, the City will continue to reflect a high level of solvency.

The actuary that prepared the City's most recent OPEB valuation report has indicated that a new Governmental Accounting Standards Board (GASB) pronouncement may soon be issued that will require public agencies to report the value of the unfunded liability (including the implied subsidy portion) in the same manner that the pension plan unfunded liability will be reported at the end of the current fiscal year under GASB 68. The starting date for the new reporting on the OPEB unfunded liability has not been determined.

Further Discussion of the OPEB Unfunded Liabilities

The current funding strategy for the OPEB program reflects the payoff of the unfunded liability within 23 years based on current assumptions. With the change in reporting and the addition of the implied subsidy liability, the Annual Required Contribution (ARC) will increase as discussed above. Staff is researching what the effects of not fully funding the ARC will be on the City's credit rating to find out if it makes financial sense to continue paying only the annual amount needed to prepay the portion of the unfunded liability that does not reflect the implied subsidy.

What Have Other Public Agencies Done to Pay Down Their Pension Liabilities?

A check of other agencies has revealed the following actions that each has taken. It is notable that most of these agencies have not identified a specific period by which they intend to have their unfunded liabilities paid down. Most are making at least one prepayment in an effort to begin paying down their liability with whatever resources they have available at the time. Only one has completely retired the unfunded liability.

Huntington Beach - \$278 million unfunded liability

At the time the city was preparing its 2013-14 budget, the Council adopted staff's recommendation to make a prepayment to CalPERS based on a finding that excess revenues existed at the end of each fiscal year. According to the Finance Director, the City has settled on paying \$1.0 million per year from their excess revenues against their safety plan unfunded liability with the intent that the City will reduce the amortization period by 5 years. This will reduce the amortization period from 30 years to 25 years. The city has adopted the theory that it should pay for promises already made to its employees before entering into new ones.

Santa Maria - \$5.6 million Fire Safety Side Fund liability

The City elected to utilize an inter-fund loan from its solid waste enterprise fund in order to pay down the unfunded liability in full. The enterprise fund is being repaid from retirement plan cost savings over 10 years with interest set at 3%.

Newport Beach – \$257.9 million unfunded liability

The city is making \$250,000 quarterly prepayments this year to prepay the safety program's unfunded liability (\$163.2 million). This is the limit of what they can afford to spend and there does not appear to be a specific target set for the reduction of the amortization period. Staff is considering a proposal that would utilize future savings in PERS costs that are realized at the end of each year (estimated to be from \$250,000 - \$500,000) as a source of future prepayments.

Menlo Fire District – \$38 million unfunded liability

The District plans to use savings from its unspent payroll budget to make prepayments starting in March 2015. There is no formal plan to reduce the amortization period by a specified period.

Irvine - \$91.1 million unfunded liability

The city adopted a plan that is funded largely from a \$61 million reserve that exists in its Asset Management Plan Fund (AMPF) and also uses \$1.0 million annually from other fund excess reserves. The plan to fund the prepayments includes a one-time upfront prepayment of \$3.0 million from excess reserves, followed by annual installments of \$5.0 million each from the AMPF and an additional \$1.0 million that will come from other excess reserve monies. Savings generated from the prepayments will be used to repay the AMPF so that the fund reserve does not fall below \$43.9 million over the 10 year period.

Laguna Beach - \$53 million unfunded liability (\$24 million miscellaneous; \$29 million safety pool)

The city approved a \$1.0 million prepayment against its unfunded liability from 2014-15 excess reserves. In the future, up to \$1.4 million is to be programmed for annual prepayments starting no later than 2015-16 without impacting current city services.

Costa Mesa - \$228 million unfunded liability (\$144 million safety; \$84 million miscellaneous)

The city approved a \$6 million prepayment at the end of 2013-14 toward its fire side fund liability and the use of the annual savings that result to make further prepayments against that obligation. In addition, they approved making early payments of the required annual contribution for the miscellaneous plan to take advantage of the discount available and also approved the future prepayments of up to \$500,000 annually toward the unfunded liability

San Luis Obispo – \$115.6 million unfunded liability

The City Council approved a \$935,000 prepayment on the Safety Side Fund liability during the Mid-Year Budget Update session and a second \$300,000 prepayment was made as part of the 2014-15 Supplemental Budget plan. Both prepayments came from excess reserves in the General Fund. The City elected to continue paying the original employer rates rather than take advantage of the rate savings that the prepayments generated (approximately .5%) in order to generate additional prepayments during the rest of the fiscal year.

Summary

To summarize the actions taken by these agencies, with the exception of Santa Maria, all have chosen to use savings and/or excess reserves to provide the resources necessary to make the prepayments that have been called for by their prepayment plans. Inter-fund loans are not always an appropriate means of financing long-term obligations since they restrict the available enterprise fund resources for the duration of the loan and possibly lower enterprise fund reserve levels below those needed to support the start of construction on several significant capital projects.

It was also noted that several cities including Irvine stated that they will review their policy and the effect of all prepayment assumptions each year to determine whether any changes are needed to the prepayment plan.

Prepayment Strategy Considerations

It is important to note that with the recent changes in retirement funding that have been put into place by CalPERS, the City is expected to pay off the unfunded liability within 30 years based on current actuarial assumptions. In the past, the retirement system used rolling amortization schedules to determine when the unfunded liabilities would be paid off. This meant that the payoff dates were continually being moved into the future. One consideration that should be taken into account when determining whether a policy for the repayment of these liabilities should be created is whether there is a significant advantage to making additional payments to retire the debt early. Therefore, one objective of a policy to prepay unfunded liabilities could be the balancing of resources between those needed to meet current needs with the desire to retire existing unfunded debt.

As seen with the other cities' efforts to address their unfunded liabilities, most have not set a firm funding objective other than to begin making prepayments to reduce their liabilities. Irvine has targeted a 98% funding objective by the year 2023 and Huntington Beach has sought to reduce their unfunded liability amortization period from 30 years to 25 years.


According to the City's CalPERS actuary, Barbara Ware, one of the variables to consider when establishing a policy for prepaying a retirement liability is the period of time when employees will begin drawing their benefits because this provides assurance that the benefits are fully funded. The actuary that prepared the OPEB valuation report also indicated that the timeframe in which most plan participants will be retired should be considered as part of a prepayment strategy for the same reason. CalPERS and the OPEB valuation consultant both have the ability to provide the City with statistics showing when a majority of the members from these plans are likely to retire.

Both the CalPERS and OPEB actuaries are also able to provide amortization tables that provide the City with the ability to determine the timing and amount of each prepayment that would be required to retire the unfunded liability of these plans over a specified period. Further analysis will be completed using amortization tables as part of the analysis that will return to the City Council in the coming months.

As stated above, all of the agencies that were contacted about their retirement prepayment plans intended to use excess reserves, excess revenues or excess savings that were identified at the end of a fiscal year to make their prepayments. The new policy should also identify where the resources that will be used for making the prepayments will come from.

IN COUNCIL READING FILE

Report to Council from April 15, 2014 outlining retirement repayment options



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