



council agenda report

Meeting Date	12-18-12
Item Number	B2

CITY OF SAN LUIS OBISPO

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SUBJECT: 2013-15 FINANCIAL PLAN PROCESS AND POLICIES

RECOMMENDATION

1. Review and approve the 2013-15 Financial Plan Goal Setting Process.
2. Review and approve the proposed changes to the 2013-15 Financial Plan Policies.

REPORT-IN-BRIEF

The purpose of this agenda item is to finalize the process for establishing the City's 2013-15 Financial Plan including the development of Major City Goals. The report will further review the policies that past financial plans have relied upon and address recommended changes to a few for consistency amongst all City policies.

BACKGROUND

The following four features describe the City's Financial Plan process: goal-oriented, policy-driven, multi-year and technically rigorous. For 2013-15, staff plans to continue using a two-year budget that emphasizes long-range planning and effective program management. The benefits identified when the City's first two-year plan budget 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.

Appropriations continue to be made annually; however, the Financial Plan is the foundation for preparing the budget for the second year. Additionally, unexpended operating appropriations from the first year may be carried over for specific purposes into the second year with the approval of the City Manager. This practice has successfully avoided the tendency in large organizations to make "use it or lose it" expenditures at the end of a fiscal year.

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. The Financial Plan process used by the

Council does this by engaging the community to identify the most important things for the City to accomplish for the community, establishing a timeframe and organizational responsibility for achieving them, and allocating the resources needed to do so. Attachments 1 and 2 contain the community-wide priorities survey and the flyer sent to over 200 groups and individuals inviting participation in this process, both of which are examples of methods to solicit input from residents and other community members

In order to identify key goals which will drive the budget process, the City begins its Financial Plan process with Council goal-setting to determine major objectives to be accomplished over the next two years. These key goals, "Major City Goals", are in addition to the routine, ongoing services the City provides to the community.

Two major elements of the goal-setting process are the Community Forum and the Council Goal-Setting Workshop which are both held in January. Goals approved by the Council are incorporated into the budget preparation process. In April, staff returns with draft work plans and requests for policy direction which is used to formulate a Preliminary Financial Plan for public comment. A series of study sessions and public hearings are then held prior to approval of the Financial Plan and Budget by June 30th. A visual depiction of the Goal-Setting and Budget Process elements and their interactions is included in Attachment 3.

Measure Y Integration

Measure Y was approved by City voters in November 2006 to preserve essential services for the community. Measure Y established a ½-cent City sales tax that keeps all revenues local. This general purpose revenue measure generated \$6.2 million in revenue during 2011-12, which is being used for important public safety, infrastructure maintenance, traffic congestion relief, neighborhood code enforcement and open space acquisition projects. Measure Y includes accountability and citizen oversight provisions, including an 8-year sunset and annual auditing requirements. In addition, Measure Y includes the following provisions to ensure that consideration of this important revenue source is integrated into the financial planning process. The proposed goal-setting process for 2013-15 is designed to meet these two requirements.

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 provided 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 or 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. With each financial plan, staff prepares a Measure Y integration report to show how use of Measure Y revenues is connected to the Council’s goals (Attachment 4). The report discusses how Measure Y priorities are determined, and includes detailed information about the types of expenditures made (operating and capital) since the local, half-cent sales tax was approved.

As noted above, the Community Forum will give the community an opportunity to provide input to the Council as to their views on Measure Y priorities. This will help the Council connect Major City Goals and Measure Y priorities.

DISCUSSION

2013-15 Goal Setting Process

The first purpose of this agenda item is to finalize the goal-setting process for 2013-15. With adoption of the Goal Setting and Budget calendar on September 4, 2012 (Attachment 5) and tonight’s workshop as the foundation, the City is using a “two-step” approach to the Council goal-setting process. The two principal elements to this approach are the **Community Forum**, to be held on the evening of *Tuesday, January 8, 2013*, at the Ludwick Community Center and the **Council Goal-Setting Workshop** to be held on *Saturday, January 26, 2013 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 Measure Y goal identification. The specifics are outlined below.

Community Forum

The January 8th Community Forum is intended to solicit suggestions from Council advisory bodies, community groups, other groups of stakeholders and interested individuals on proposed City goals and fiscal issues. It is also intended to meet the “forum” requirements of Measure Y to “review and

2011-13 Measure Y Priorities

- Infrastructure maintenance
- Preservation of essential services: public safety, maintenance services
- Traffic congestion relief
- Neighborhood code enforcement

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 for the Community Forum is provided in Attachment 6. As reflected in the agenda, it is recommended that the facilitator be responsible for calling speakers to allow the Mayor to focus on the content. 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. Each speaker will be invited to address the “what, why, and how” of his/her suggested goal. The Department Head responsible for the budget function (i.e., Public Safety; Public Utilities; Transportation; Leisure, Cultural and Social Services; Community Development; and General Government) in which the comment falls 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.

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. 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 meeting, each attendee will receive adhesive dots to apply to the posted items: six green for overall goal priorities and six orange dots for top Measure Y 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, 2013 before the Goal-Setting Workshop. 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 18th Council meeting.

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

Provided in Attachments 7 and 8 are the Council’s first “homework assignments” for the January 26th workshop. Based on all input received, it is requested that Council members prepare and submit ***up to seven candidate goals*** as Major City Goals by January 22, 2013. Council members are also asked to prepare and submit suggestions for changes in other programs and services to 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 lists will be distributed to all Council members and the community on January 24, 2013. 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 has flexibility to review all of the submissions and discuss them at the Goal-Setting Workshop before taking a position.

Council Goal-Setting Workshop

At the all-day January 26th 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 Measure Y 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 2015-17 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. For example, if there are 15 goals in the final listing, then 45 points might be about right; if there are 25, then 75 might be appropriate. The exact number of points is typically figured out on the day of the workshop.

Staff will summarize the results of the Council's ranking during a break at the workshop. Based on past experience, it is likely that three 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. If the work program approved by the Council for a Major City Goal is not included in the City Manager's Preliminary Financial Plan, compelling reasons and justification must be provided as to why resources could not be made available to achieve this goal.
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.
3. **Address as Resources Permit.** While it is desirable to achieve these goals over the next two years, doing so is subject to existing resource availability.

In determining these groupings, the Council will note which goals address Measure Y priorities and determine the desired emphasis among the areas that Measure Y funding supports. These discussions will provide guidance at a policy level, while details of work plans and budget figures will come forward in April.

The outline for the goal setting workshop is provided in Attachment 9; and suggested guidelines for Council members during the goal-setting process are provided in Attachment 10. Included as Attachment 11 are the suggested "Criteria for Major City Goals" which have been used by the

Council for the past twenty 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.

Continued consideration of goals for 2013-15 is scheduled for the next regular Council meeting following the workshop. This will be held on February 5, 2013, if needed. 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.

Next Steps: Council Goal Work Programs

After the Council finalizes goals and objectives for 2013-15, staff will prepare detailed work programs for each Major City Goal. Based on past experience, it is important for the Council to reach consensus not only on the objective for Major City Goals, but also on the program, action plan and resources that will be needed to accomplish it. Unless staff fully understands the scope and timeframe that the Council intended, needed resources cannot be identified; and without this understanding, the Preliminary Financial Plan may significantly over (or under) fund the desired work effort. Accordingly, the purpose of each work program is to:

1. Define the scope, scale and intended outcomes of the adopted goal.
2. Ensure that there is consensus about the action steps to be used in accomplishing it so appropriate resources are allocated.
3. Ensure specific action steps are associated with measurable deliverables so that progress in achieving the goal can be articulated.

For each “Major City Goal,” staff will prepare a detailed work program describing the objective of the goal, the key factors driving the need, work that has already been completed, anticipated challenges or obstacles, stakeholders, and key assumptions. Also included will be a detailed action plan with targeted completion dates for key tasks, a description of the financial and staff resources necessary to complete the work, and the desired outcome and community benefit of the goal. For each “Other Important Objective,” staff will prepare an outline highlighting the objective, action plan, responsible department, overview of financial and staff resources, and desired outcome and community benefit. Finally, for each “Address as Resources Permit,” staff will prepare a brief summary of the objective and the key activities needed to accomplish it.

The work programs for Major City Goals will be presented to the Council at a special budget workshop on April 9, 2013. This meeting will result in strategic budget direction about levels of investment in the Major City Goals as well as additional investments in the City’s general fund supported capital improvement program. This direction is then translated into the operating and capital budgets contained in the Financial Plan. In other words, this meeting is used to get broad-brush direction and guidance from the Council which typically helps ensure that the draft financial plan reflects the wishes of the City Council. Programs and projects related to goals in the other two priority categories will be reflected in the Preliminary Financial Plan as appropriate.

Continued Enhancements or Discontinued Elements to the Goal-Setting Process

The following key enhancements to the process were implemented in the 2011-13 Financial Plan and will continue with this financial plan to build on past experience:

1. *Inclusion of carryover goals, Major City Goals and Other Important Goals underway or not fully funded in the goal-setting process.* This ensures that the Council is looking at the full plate of major activities during the process.
2. *Integration and identification of Measure Y funding with other goals.* This emphasizes clarity and accountability for Measure Y funding.

In preparation of the 2011-13 Financial Plan, staff completed a new initiative which gave the Council and the community another tool to compare and contrast services in deciding how to address the City’s then budget gap (called Service Categorization). Since the circumstances are substantially different now it is an imprudent dedication of staff resources to update this assessment and staff has not incorporated a service categorization project into the schedule.

Summary Goal-Setting Calendars

The following summarizes key dates leading to the January 26th Goal-Setting Workshop:

When	What
Friday, December 21	Council receives goal-setting notebooks, which includes advisory body goal recommendations, initial results from Community Priorities Survey; and written suggestions as of December 14.
Tuesday January 8	Council holds Community Forum.
Tuesday, January 15	Council receives written results from Community Forum.
Tuesday, January 22	Council members submit goals to Finance Department.
Thursday, January 24	Staff distributes consolidated Council member goals organized by similar topics.
Saturday, January 26	Council holds Goal-Setting Workshop.

The following summarizes the remaining key dates after January 26th.

Remaining Key Dates After January 26th Goal-Setting Workshop

When	What
Tuesday, February 5 Regular Meeting	Follow-up to Council Goal-Setting, if needed. Continued consideration of goal-setting at the next regularly scheduled Council meeting following the January 26 workshop, if needed.

<p>Tuesday, February 19 Regular Meeting</p>	<p>Mid-Year Budget Review. Consider the City's fiscal status at the mid-point of the fiscal year and make appropriation adjustments as necessary; review status of 2011-13 goals and objectives.</p>
<p>Tuesday, April 9 Special Budget Workshop</p>	<p>Major City Goal Work Programs. Review and approve detailed work programs to accomplish Major City Goals; provide other budget direction as needed.</p>
<p>Thursday, May 24</p>	<p>Preliminary Financial Plan. Receive 2013-15 Preliminary Financial Plan.</p>
<p>June 10, 11, 12 Special Budget Workshops</p>	<p>Budget Workshops. Review the Financial Plan and consider General Fund operating programs. Consider General Fund CIP projects. Consider Enterprise Fund operating programs, CIP projects, revenue requirements and rates.</p>
<p>Tuesday, June 18 Regular Meeting</p>	<p>Public Hearing and Budget Adoption. Continue to discuss and receive public comment on the Preliminary Financial Plan; adopt the budget.</p>
<p>Tuesday, June 25 Special Meeting (if needed)</p>	<p>Hold special meeting to continue review and adopt budget, if required.</p>

Goal-Setting Workshop Notebooks

To help organize all the background information that Council members will receive as part of this goal-setting process, notebooks will be distributed by December 21, 2012 with the following sections:

Agendas

1. Agendas for the January 8 Community Forum and January 26 Goal-Setting Workshop.

Goal Recommendations

2. Goals received from Council advisory bodies.
3. Goals from the “Community Priorities Survey” as of December 14, 2012 (additional submissions received after this date will be distributed to the Council in a three-hole punch format for inclusion in the notebook, along with an updated summary).
4. Goals received by December 14, 2012, from community groups and interested individuals (additional submissions received after this date will be distributed to the Council in a three-hole punch format for inclusion in the notebook).
5. Summary of results from the January 8th Community Forum (to be distributed by January 15, 2013).
6. Consolidated Council member candidate goals (to be distributed by January 24, 2013).

Background Materials

7. Status reports on the General Fund Fiscal Outlook; General Plan programs; long-term CIP; 2011-13 goals and objectives; and current CIP projects as included in the *Setting the Table: Background Materials for 2013-15 Goal-Setting and Financial Plan Process* report dated November 13, 2012.
8. General Fund Five-Year Fiscal Forecast presented to the Council separately this evening.
9. Other background information, such as the 2013-15 Financial Plan schedule, Budget-in-Brief, Financial Plan policies and public notifications.
10. Notes and space for other supplemental materials that the Council may receive.

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.

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 Policies and Objectives section of the Financial Plan (Attachment 12 contains proposals outlined below). 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.

Each financial planning cycle the City reviews the policies in place to see if any updating is necessary. At this point, several policy changes, focused primarily on revisions and updating of definitions within different policies, are proposed. These changes are intended to create consistency amongst City fiscal policies and create a system that is efficient and effective to administer. Further, as staff begins preparing the 2013-15 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. Capital Improvement Project (CIP) Management

The 2011-13 Financial Plan Budget and Fiscal Policies regarding Capital Improvement Management section A currently reads:

CIP Projects \$15,000 or More. Construction projects and equipment purchases which cost \$15,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than \$15,000 will be included in the operating program budgets.

The following changes are proposed for the 2013-15 Financial Plan as noted below in strikeout and replace:

CIP Projects ~~\$15,000~~ \$25,000 or More. Construction projects and equipment purchases which cost ~~\$15,000~~ \$25,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than ~~\$15,000~~ \$25,000 will be included in the operating program budgets.

The reason for this modification is two-fold – efficiency and consistency. As it relates to efficiency, currently every CIP proposal of \$15,000 to \$25,000 receives the same amount of attention as does every other project. As best as can be discerned from staff's research this amount has been in place since the two-year financial plan was implemented. As an example, in the 2009-11 financial plan a project to replace the pool cover at the Swim Center is included in the CIP budget as opposed to be included at a capital outlay in the operating budget. It would be more efficient and effective use of staff time to incorporate this expenditure in the operating budget. This isn't to say that the Council would not be involved in the decision making about whether this expenditure is necessary as the Council would get the opportunity to consider this expenditure because the Council would review the addition of the expenditure through consideration of increase over the threshold for Significant Operating Program Changes (SOPC).

As for consistency with other policies, the City's current Financial Management Manual Section 200, Purchasing Policies and Procedures, currently articulates very clearly the City's purchasing policies and procedures including ethics, objectives, competitive bidding requirements, and specifications. In setting forth the policies and procedures which govern staff's purchasing activities (Purchasing Policy approved by Council on September 4, 2007), the Financial Management Manual establishes authority, responsibility, and accountability for purchasing activities on behalf of the City. Fundamental to these activities is the securing of goods and services at the lowest costs commensurate with quality requirements. Departments have responsibility to evaluate and select goods and services up to a certain fiscal threshold following the clear guidelines of the City's policies. As provided in the City's purchasing ordinance, the responsibility and accountability for purchasing activities has been delegated to the City Manager for purchases between \$25,000 and \$100,000 without prior Council authorization. In addition to the City Manager, the Director of Finance and IT, and the City Engineer have the authority to approve

purchase orders for construction projects or general purposes of \$25,000 or less. Department Heads have purchasing authority for projects under \$7,500.

Given this backdrop of existing policies and the fiscal reality that \$15,000 is not a significant amount of capital in today’s dollars, staff proposes that only construction projects and or equipment purchase over \$25,000 become a Capital Improvement Plan project. Those that are under that amount would be subject to all of the normal purchasing checks and balances as described above and specifically outlined in the City’s Financial Management Manual. By following a more streamlined process, many minor projects will be accomplished with more staff time spent on the completion of the project itself.

Staff conducted research on benchmark cities’ thresholds for CIP projects (i.e., what qualifies as a CIP project and requires Council approval) and found a wide range. Several cities require Council approval for all capital projects, regardless of the cost. For those cities that do have a specific Council approval threshold, the average is \$48,000. The table below shows the findings:

Agency	Council Approval Threshold
City of Monterey	All capital projects
City of Paso Robles	All capital projects
City of Santa Maria	\$5,000 or more
City of Palm Springs	\$5,000 or more
City of Davis	\$30,000 or more
City of Santa Barbara	\$100,000 or more
City of Santa Cruz	\$100,000 or more

Based on the requests submitted during the past three financial plans, if the current Council approval threshold for CIPs was increased to \$25,000, 16 CIP projects (4% of the total 383 projects) would be incorporated into the operating budget which is approved by the City Council. However to implement the project it would have been approved at the City Manager level. A summary of these findings is below:

Financial Plan	All CIP Projects	CIP projects greater than \$15,000 and less than \$25,000	% of Total Projects That Would be Affected by Policy Change
2007-09	147	9	6%
2009-11	116	5	4%
2011-13	120	2	2%
Total	383	16	4%

This minor modification would create consistency between City policy documents and would facilitate more time spent on achieving projects.

3. Significant Program Operating Changes (SOPCs)

Currently staff’s practice is for any significant operating change to a City program in excess of \$5,000 (either increases or decreases) must be written up and included in the documentation for

SOPCs. The purpose is to summarize and compile all materials used to develop the recommended changes in the Financial Plan. SOPCs are defined as:

1. Major service curtailments or expansions
2. Any increases or decreases in regular positions
3. Significant one-time costs
4. Major changes in the method of delivering services
5. Changes in operation that will significant affect other departments or customer services
6. Changes that affect current policies

Staff does not recommend any change in what is considered an SOPC. The only change recommended is to raise the threshold to \$7,500 to provide consistency with the City’s Financial Management Manual which allows Department Heads purchasing approval of up to \$7,500.

Staff conducted research on the approval process for operating budget modifications at benchmark cities. In general, most of these cities require Council approval for all budget increases but have a much less rigorous request process. None of them require full page requests as the City of San Luis Obispo does but instead utilize budget committees comprised of department heads to review requests and decide on recommendations to present to their City Councils. The table below shows the findings:

Agency	Council Approval Threshold	Approval Process
City of Monterey	All budget modifications and new appropriations	Departments submit brief request via online system; Budget Committee reviews requests and makes recommendations to Council.
City of Santa Barbara	No specific threshold	Small changes can be approved by Finance Director and City Manager; others must go to Council via Budget Policy Steering Committee recommendations.
City of Paso Robles	All budget increases	Department Heads review proposed changes and make recommendations to Council. Council sees all requests (including those not recommended by Department Head team).
City of Palm Springs	All budget increases	Requests approved by Finance Department and City Manager; Council receives final proposed budget which incorporates these changes.

Based on the requests submitted during the past three financial plans, if the current Council approval threshold for SOPCs was increased to \$7,500, seven program changes (5% of the total 135 requests) could have been approved at the department head level. A summary of these findings is below:

Financial Plan	All SOPCs	SOPCs greater than \$5,000 and less than \$7,500	% of Total SOPCs That Would be Affected by Policy Change
2007-09	77	6	8%
2009-11	30	1	3%
2011-13	28	0	0%
Total	135	7	5%

This minor modification would create consistency between City policy documents.

3. Establishment of an Information Technology (IT) Replacement Fund

Under the section Fund Balances and Reserves, staff recommends the addition of a new section focused on the establishment of an IT Replacement Fund. This fund would be analogous to the existing Fleet Replacement Fund. The purpose of this fund is to recognize the significant capital investment that the City makes in technology on an annual basis. It further recognizes that value of technology as an asset and a tool for Council, the public, and staff. In today’s world, IT is a critical component to the health and welfare of a City and should be budgeted for on an annual basis reflecting the costs associated with this key component of the City’s fiscal sustainability. The establishment of this mechanism to save for and replace critical IT resources is consistent with the Information Technology Strategic Plan adopted by the City Council earlier this year. The proposed policy addition reads in Attachment 12 as follows:

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. 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.

4. Enterprise Fund Reserves – Proposed Modifications to Water and Sewer

As part of the development of the City’s Enterprise Fund Budgets, each fund: Parking, Transit, Water, and Sewer, will present information during their fund reviews about each funds’ minimum fund balance (reserves). The appropriate valuation of fund balance varies by fund. Staff does not recommend changes to either the Parking or Transit funds accounting of their minimum fund balances. However, there are recommended changes to the policies for maintaining fund balances for both the Water and Sewer Funds discussed below.

Rate Stabilization Reserves

Staff recommends adding a section to the Fund Balance and Reserves fiscal policy section to establish rate stabilization reserves in the Water and Sewer Funds. The goal of rate stabilization reserves (and all reserves) is to provide a level of stability to both the City and the customer. Reserves help the City to adequately provide for things such as cash flow requirements, emergency repairs, local disasters or catastrophic events, and loss of significant revenue sources. The purpose of rate stabilization reserves is to offset unanticipated fluctuations in sales revenues that would

otherwise require increases to rates. These reserves are not intended to replace regular and prudent rate increases that are necessary to maintain the water and wastewater systems, but they allow flexibility in implementation of rate increases should unforeseen circumstances occur (such as a major ratepayer ceases operation). Staff recommends adding the following language to the City's fiscal policies:

C. 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.

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 it becomes necessary during any fiscal year.

Staff is not proposing to change the current policy regarding minimum level of reserve required to maintain the City's credit worthiness and provide for general uncertainties (a minimum working capital balance of at least 20% of operating expenditures in the Water and Sewer Funds). Rather, staff is proposing the designation of an additional reserve of working capital that would be utilized to provide temporary relief or to "soften" the impact of necessary rate increases that are due to unanticipated loss of revenues. Annual water and sewer sales can be difficult to predict as they are influenced by many factors, such as weather and customer consumption and conservation patterns. There are certain things that can assist in providing revenue stability and predictability (such as minimum fixed charges or sewer caps) however, the weather can have significant impact on revenues and is not predictable. As such, the fiscal analysis of these funds typically provides for working capital balances in excess of the 20% minimum in order to respond to changing circumstances without an immediate need for adjustments to the rates. Therefore, in concept, the City has traditionally provided for a de-facto rate stabilization reserve in the water and sewer funds, it just wasn't identified as such.

Why implement a rate stabilization reserve now?

There are several reasons to formally establish rate stabilization reserves. One is the City's continued efforts for transparency and accountability of funds. Historically, the Water and Sewer Funds have maintained fund balances in excess of the minimum reserve policy for various purposes including providing rate stability or positioning the fund for future large capital projects. Identifying fund balance amounts that are reserved or designated for specific purposes will provide the readers of the fund analysis with a better picture of the financial status of the fund. An example of how the reserve and designations would be displayed on the fund analysis statement appears below.

Another reason to formally establish a rate stabilization reserve is to demonstrate strong financial management to outside entities, particularly to rating agencies. The City's bonds are rated by agencies such as Standard & Poor's and Fitch Ratings. These agencies look favorably on strong financial policies and on maintaining adequate reserves. Of the many factors that contribute to a City's bond rating, one analysis calculates the amount of revenue available to provide the annual

debt service payment. This is commonly called the “debt coverage ratio” and gives investors some sense of the creditworthiness of a city. The City’s bond documents include language that guarantees to bond holders that the City will set rates that will ensure a coverage ratio of at least 125%; that is available revenues will exceed the annual bond payment by at least 125%.

Generally, rating agencies would like the ratio to be higher than that, in fact in its recent rating of the Water bonds, Fitch Ratings indicated that the City needs to return to coverage levels approaching 200% by 2015. Having formal acknowledgement of the use and replenishment of these specific reserves can alter the calculation of the debt coverage ratio; therefore it is important for the City to establish these policies.

How was the reserve amount established?

Staff reviewed original revenue budgets and actual revenue outcomes for the past ten fiscal years and analyzed the variances each year. In the case of the Water fund, as recently as 2010-11, the fund experienced revenue shortfalls of about 10% of sales revenue budgets. This was the largest variance for the fund during the ten-year analysis period and staff is comfortable that the rate stabilization reserve does not need to be any larger than the largest variance. At the time this recommendation was being developed, Council was considering possible changes to the water rate structure that could increase the fund’s revenue stability and predictability; however it is too soon to see the impact of those decisions. Staff therefore recommends initially establishing the Water Fund’s rate stabilization reserve at 10% of sales revenue. In the Sewer Fund, there are already well established revenue stability measures, which don’t entirely eliminate volatility in sewer sales revenues, but do help mitigate the variance. Because of this, staff recommends establishing the Sewer Fund’s rate stabilization reserve at 5% of sales revenue.

Using and replenishing the reserve

The use of any or all of the rate stabilization reserves would depend on the financial circumstances facing the affected fund(s) at the time. The degree to which reserves are utilized or replenished will depend on the short term and long term financial projections for the fund. Consistent with the City’s adopted Fiscal Health Contingency Plan, the use of reserves (including rate stabilization reserves) would be recommended as a first line of defense in adverse circumstances and will provide “breathing room” while comprehensive response plans are developed. Staff anticipates that the discussion of the use and/or the replenishment of the reserve would occur with the development of each Financial Plan or during the annual fund review; however, unforeseen circumstances may occur at any time that would render it necessary to discuss the topic with the Council. In other words, use or replenishment of the rate stabilization would be a policy decision by the Council.

Example of Changes in Financial Position with rate stabilization reserve and capital designation identified.

CHANGES IN FINANCIAL POSITION - SEWER FUND					
	2012-13	2013-14	2014-15	2015-16	2016-17
	Budget	Projection	Projection	Projection	Projection
Revenues					
Investment and Property Revenues	249,800	154,600	169,900	215,400	311,600
Service Charges					
Customer Sales					
Sewer Service Charges	14,266,000	14,836,600	15,281,700	15,740,200	16,212,400
Sales to Cal Poly	799,200	831,200	856,100	881,800	908,300
Development Impact Fees	200,000	106,000	109,000	112,300	115,700
Account Set-Up Fees	116,400	118,000	120,400	123,800	126,900
Industrial User Charges	65,700	66,600	67,900	69,800	71,500
Connection Charges and Meter Sales	20,000	20,300	20,700	21,300	21,800
Other Revenue	3,600	3,700	3,800	3,900	4,000
Total Revenue	15,720,700	16,137,000	16,629,500	17,168,500	17,772,200
Expenditures					
Operating Programs					
Public Utilities	7,264,200	6,533,300	6,766,500	7,038,800	7,217,700
General Government	1,394,100	1,413,600	1,441,900	1,477,900	1,514,800
Total Operating Programs	8,658,300	7,946,900	8,208,400	8,516,700	8,732,500
Capital Improvement Plan	15,843,000	5,773,000	4,371,700	3,787,900	63,218,100
Debt Service	2,995,000	1,698,500	1,697,300	1,695,700	5,440,000
Total Expenditures	27,496,300	15,418,400	14,277,400	14,000,300	77,390,600
Other Sources (Uses)					
Operating Expenditure Adjustments	(62,900)	(64,200)	(65,800)	(67,400)	(69,100)
Projected MOA Adjustments	82,000	110,100	(15,500)	(18,800)	(33,900)
Proceeds from Debt Financing	7,000,000				49,800,000
Total Other Sources (Uses)	7,019,100	45,900	(81,300)	(86,200)	49,697,000
Revenues and Other Sources Over (Under)					
Expenditures and Other Uses	(4,756,500)	764,500	2,270,800	3,082,000	(9,921,400)
Working Capital, Beginning of Year	12,488,900	7,732,400	8,496,900	10,767,700	13,849,700
Working Capital, End of Year	7,732,400	8,496,900	10,767,700	13,849,700	3,928,300
Reserve (20% of operating)	1,731,700	1,589,400	1,641,700	1,703,300	1,746,500
Rate Stabilization Reserve (5% of sales)	753,300	783,400	806,900	831,100	856,000
Capital Reserve for WRF upgrade	4,000,000	5,000,000	8,000,000	11,000,000	
Unreserved Working Capital	1,247,400	1,124,100	319,100	315,300	1,325,800

5. Investment Oversight Committee

The 2011-13 Financial Plan Budget and Fiscal Policies includes specific policies regarding Investments including the role and membership of the Investment Oversight Committee. At a recent City Council meeting the issue of expanding membership of this committee to include a city council member and a financial professional from the public was raised. The appropriate section of the Policies currently reads:

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 regarding investment management practices. Members include the City Manager, Assistant City Manager, Director of Finance & Information Technology/City Treasurer, Finance Manager and the City's independent auditor.

Staff has not had an opportunity to fully research this issue but on the face of the issue sees little issue with a Council member being appointed to the committee. On the flip side and on its face, there may be some potential issues with a member of the public serving in this advisory role in that they would have no fiduciary obligations to the City and may have significant potential conflicts of interest. Staff will do some research on this issue before the City Council meeting and will be prepared to share best practices with the City Council at the meeting. No proposed changes have been incorporated in Attachment 12 regarding this issue.

ATTACHMENTS

1. "Community Priorities Survey" Inserted in City Utility Bills
2. Notice Sent to Community Groups and Interested Individuals
3. Goal-Setting Process Schematic
4. Measure Y Integration Report
5. 2013-15 Financial Plan Calendar
6. Outline for Community Forum (January 8)
7. Sample Form for Council Members to Submit Candidate Goals
8. Sample Form for Council Members to Submit Changes in Other Programs and Services
9. Outline for Council Goal-Setting Workshop (January 26)
10. Guidelines for Council Members During the Goal-Setting Process
11. Criteria for Major City Goals
12. Proposed 2013-15 Financial Plan Policies

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COMMUNITY PRIORITIES SURVEY

What are the most important issues 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. 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.

The City anticipates entering the 2013-15 budget planning process in better financial shape than two years ago. Some revenue sources have rebounded, budgets have been trimmed and the City has taken steps to reduce costs. All of these actions have helped keep the City financially healthy, even in a time of the "Great Recession." However, other economic uncertainties linger with the State and Federal budgets, the City's budget is still tight, and we face an ongoing need to reinvest in streets, bridges, technology, vehicles and facilities. All of these may lead to potentially complex budget decisions. So 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!

2011-2013 Major City Goals

- ❖ Economic Development
- ❖ Preservation of Essential Services & Fiscal Health
- ❖ Neighborhood Wellness
- ❖ Traffic Congestion Relief

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 2013-2015 priorities.

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

❶ **Fill out and return** the short survey on the reverse side of this bulletin. You can mail it to City Hall at 990 Palm Street, 93401 or drop it by any City office. If you prefer to complete the survey online, please visit www.slocity.org.

❷ **Attend the Community Forum on Tuesday, January 8, 2013 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 26, 2013**. 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 Charles Bourbeau, Director of Finance & Information Technology, at 781-7125 or cbourbea@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 2013 - 2015

What should be the City's most important, highest priority goals during 2013-15?

①	
②	
③	
④	
⑤	

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

Fold and Tape Here for Mailing



Contact Information

Please submit your written comments by **Friday, December 14, 2012** to Charles Bourbeau, Director of Finance & Information Technology, by mail at 990 Palm Street, San Luis Obispo, CA, 93401; by fax at 781-7401; or by email at cbourbea@slcity.org. For more information on the goal-setting and budget process, contact Charles at 781-7125.



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.

Key Dates

Budget Foundation Workshop
Tuesday, December 18, 2012
6:00 p.m.

Written Suggestions
Please send them to Charles Bourbeau by:
Friday, December 14, 2012
990 Palm Street
San Luis Obispo, CA 93401
Fax: 781-7401
Email: cbourbea@slcity.org

Community Forum
Tuesday, January 8, 2013
6:00 p.m. to 9:00 p.m.
Ludwick Community Center
864 Santa Rosa Street

Goal-Setting Workshop
Saturday, January 26, 2013
8:30 a.m. to 4:00 p.m.

Mid-Year Budget Review
Tuesday, February 19, 2013
6:00 p.m.

Strategic Budget Direction & Major City Goal Programs Workshop
Tuesday, April 9, 2013
6:00 p.m.

Budget Workshops
June 10, 11 & 12, 2013
6:00 p.m.

2013-15 Budget Adoption
Tuesday, June 18, 2013
6:00 p.m.

What are the most important issues 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?

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.

The City anticipates entering the 2013-15 budget planning process in better financial shape than two years ago. Some revenue sources have rebounded, budgets have been trimmed and the City has taken steps to reduce costs. All of these actions have helped keep the City financially healthy, even in a time of the "Great Recession." However, other economic uncertainties linger with the State and Federal budgets, the City's budget is still tight, and we face an ongoing need to reinvest in streets, bridges, technology, vehicles and facilities. All of these may lead to potentially complex budget decisions.

So 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?

2011-13 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 2013-15 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

- Economic Development
- Preservation of Essential Services & Fiscal Health
- Neighborhood Wellness
- Traffic Congestion Relief

Current Measure Y Priorities

Adopted by the voters in November 2006, Measure Y set an added ½-cent City sales tax. This funding enables the City to provide valued services to the community for both day-to-day operating programs and one-time capital improvements. The Council prioritizes the use of this resource, so it is important that they integrate Measure Y goal identification into the overall goal-setting process.

- Infrastructure Maintenance
- Traffic Congestion Relief
- Open Space Preservation
- Downtown Maintenance & Beautification
- Preservation of Essential Services:
 - Public Safety
 - Maintenance Services
 - Neighborhood Code Enforcement

Your Important Role in this Process

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

- 1 **Attend the Community Forum on January 8, 2013 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 26, 2013. During this public workshop, the Council will deliberate to set the Major City Goals and Other Important Council Objectives for the next two years.

- 2 **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.

Goal-Setting and the Budget Process

2013-15 Financial Plan



city of san luis obispo

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.

Background

Measure Y was approved by City voters in November 2006 to preserve essential services for our community. Measure Y established a ½-cent City sales tax that keeps all revenues local. This general purpose revenue measure generated \$6.2 million in revenue during 2011-12, which is being used for important public safety, infrastructure maintenance, traffic congestion relief, neighborhood code enforcement and open space acquisition projects. Measure Y includes accountability and citizen oversight provisions, including an 8-year sunset and annual auditing requirements. In addition, Measure Y includes the following provisions to ensure that consideration of this important revenue source is integrated into the financial planning process. The proposed goal-setting process for 2013-15 is designed to meet these two requirements.

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 inviting them 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 provided 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 or 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 - based on community input received before placing the measure on the ballot - Measure Y is a general purpose tax, clearly 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 will provide priority guidance on the use of Measure Y funds. This will initially occur during the Goal Setting Workshop on January 26. 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 for the 2013-15 Financial Plan.

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 \$2.3 million of Measure Y funds have been incorporated into day-to-day operations during the current fiscal year.

Measure Y funding allocated to ongoing day-to-day operations in 2011-12			
Operating Program		Operating Program	
Public safety communications technician	123,100	Paving crew	\$ 77,300
Traffic sergeant	229,800	Traffic signal operations	29,000
Police patrol officer	186,300	Stormwater management plan:	
Fire Marshall	147,100	Code enforcement officer	104,500
Fire Training Battalion Chief	188,800	GIS specialist	50,700
Fire Administrative Assistant	77,000	Collection operators	187,100
Park restroom maintenance	82,900	Utilities workers	119,800
Park landscape maintenance contract	237,100	Building & Zoning:	
Park maintenance worker	64,500	Code enforcement officer	95,200
Field engineering assistant	113,900	Permit technician	19,300
		Neighborhood Services Special	19,000
Total Measure Y funding allocated to operating programs			\$ 2,152,400

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 \$6.5 million during the 2013-14 fiscal year, and \$2.5 million is devoted to these

ongoing operating programs, \$4 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 Measure Y funds, and to prioritize the use of the remaining revenues.

Provided at the end of this report is a list of the Measure Y uses during 2011-12. This list is included in the City's Comprehensive Annual Financial Report (CAFR) and has been audited by the City's independent auditors. It provides information on the operating and capital expenditures during 2011-12 as well as a reconciliation of all Measure Y revenues and uses since 2006-07.

SUMMARY

Measure Y is now expected to provide over \$6 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 2013-15 Financial Plan, it also considers the prioritized use of Measure Y funds.

CITY OF SAN LUIS OBISPO, CALIFORNIA
 MEASURE Y FUNDING SUMMARY SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Operating Programs		Capital Improvement Plan	
	Actual	Encumbered/ Assigned	Actual	Encumbered/ Assigned
Infrastructure Maintenance				
Fire Engine Bay Slab Replacement	\$	\$	\$ 11,900	\$ 20,000
Andrews Creek Bypass			396,400	49,000
Storm Drain Replacements			206,300	6,800
Toro Street Creek Bank Stabilization				48,300
Playground Equipment Replacement			59,900	163,300
Warden Bridge/Mission Plaza Walkway			2,500	5,000
Street Reconstruction & Resurfacing			2,570,800	438,700
Total Infrastructure Maintenance			3,247,800	731,100
Traffic Congestion Relief				
Traffic Engineer	21,600			
Traffic Safety Report Implementation	29,700		1,900	27,800
Traffic Operations Report Implementation				174,700
Roadway Sign Replacement			4,800	86,600
Bob Jones City to Sea Trail LOVR Bridge			124,800	110,800
Total Traffic Congestion Relief	51,300		131,500	399,900
Preservation of Essential Services				
Public Safety				
Police Services	539,300		251,900	98,200
Fire Prevention & Training	412,900			
Fire Engine/Truck Replacement: Debt Service			129,900	
Maintenance Services				
Streets, Sidewalks and Traffic Signal Operations	106,300		11,800	17,100
Creek & Flood Protection	462,100			
Parks	384,500		45,600	
Project Management & Inspection	114,000			
Neighborhood Code Enforcement				
Enhanced Building & Zoning Code Enforcement	114,500			
Neighborhood Service Specialists	19,000			
Total Preservation of Essential Services	2,152,600		439,200	115,300
Open Space Preservation				
Froom Ranch Improvements				62,500
Open Space Acquisition			240,100	495,900
Total	\$ 2,203,900	-	4,058,600	1,804,700

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
Total Revenues	<u>29,744,300</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	<u>(4,058,600)</u>
Total Uses	(26,564,500)
Measure Y funding available for future year expenditures	\$ 3,179,800
Encumbered or assigned for carryover for future year expenditures	<u>(1,804,700)</u>
Net available for future year appropriations	<u>\$ 1,375,100</u>

ATTACHMENT 5

2013-15 Master Financial Plan Calendar

As of 11/2/12

When	Who	What
August 2012		
August 21, 2012	Public Works	<ul style="list-style-type: none"> Issue CIP budget instructions / overview.
October 2012		
October 2, 2012	CIP Committee	<ul style="list-style-type: none"> Reviews schedule and commitments of Committee.
October 4, 2012	Public Works / Finance / Departments	<ul style="list-style-type: none"> Holds briefing on 2013-15 CIP instructions.
October 11, 2012	CM/Finance	<ul style="list-style-type: none"> Updates advisory body chairs on the goal-setting process.
October 17, 2012	Departments	<ul style="list-style-type: none"> Complete status of General Plan programs, long-term capital improvement plan (CIP), status of current Major City Goals, objectives and CIP projects; general fiscal outlook.
October 22-24, 2012	Departments	<ul style="list-style-type: none"> Meet with Fleet Manager and/or IT Manager to review <i>Fleet & IT carry forward</i> projects.
October 29-31, 2012	Departments	<ul style="list-style-type: none"> Review CIP draft write-up with Engineer for <i>carry forward construction</i> projects.
October 29, 2012	Finance	<ul style="list-style-type: none"> Agenda report due for November 13 meeting (Setting the Table).
November 2012		
November 5, 2012	Finance	<ul style="list-style-type: none"> Begins sending letters inviting participation in goal-setting process to community groups and interested individuals. Begins inserting Community Budget Bulletins in utility bills.
November 6, 2012	CIP Committee	<ul style="list-style-type: none"> Establish process and outcomes for carry forward and new project reviews.
November 8, 2012	Departments	<ul style="list-style-type: none"> Provide recommended advisory body goals to Finance.
November 13, 2012 <i>Special Workshop</i> <i>6:00 to 10:00 p.m.</i>	Council	<ul style="list-style-type: none"> Holds workshop on status of General Plan programs, long-term capital improvement plan (CIP), status of Major City Goals and objectives, and CIP projects.
November 14, 2012	Finance	<ul style="list-style-type: none"> Distributes consolidated listing of draft recommended goals to advisory bodies for their review.
November 15, 2012	Departments	<ul style="list-style-type: none"> CIP write-ups due to Finance for <i>Fleet & IT carry forward</i> projects.
November 20, 2012	Finance	<ul style="list-style-type: none"> Distributes CIP packets to CIP Committee for <i>Fleet & IT carry forward</i> projects.
November 26, 2012	CIP Committee	<ul style="list-style-type: none"> Questions to departments on <i>Fleet & IT carry forward</i> projects. Review and confirm <i>Fleet & IT carry forward</i> projects.
November 29, 2012	Departments	<ul style="list-style-type: none"> CIP write-ups due to Finance for <i>general carry forward</i> projects.
December 2012		
December 3, 2012	Finance	<ul style="list-style-type: none"> Agenda report due for December 18 meeting (Budget Foundation).
December 4, 2012	Finance	<ul style="list-style-type: none"> CIP packets to CIP Committee for <i>general carry forward</i> projects.
December 10, 2012	CIP Committee	<ul style="list-style-type: none"> Questions to departments on <i>general carry forward</i> projects.
December 11, 2012	CIP Committee	<ul style="list-style-type: none"> Review and confirm <i>general carry forward</i> projects.
December 14, 2012	Departments Finance	<ul style="list-style-type: none"> Submit any changes in advisory body goals to Finance. Receives written comments from community groups and interested individuals, and any changes in goals from advisory bodies.

When	Who	What
December 18, 2012 <i>Regular Meeting</i>	Council	<ul style="list-style-type: none"> Finalizes goal-setting process and plans for Community Forum. Reviews and provides guidance regarding Financial Plan policies and organization of Financial Plan. Reviews financial results for 2011-12 and general fiscal outlook, including General Fund Five-Year Fiscal Forecast.
December 21, 2012	Finance	<ul style="list-style-type: none"> Binders due to Council members for Community Forum.
January 2013		
January 2-4, 2013	Departments	<ul style="list-style-type: none"> Review draft write-ups with Engineer for <i>new construction</i> projects.
January 8, 2013 <i>Special Workshop</i> 6:00 to 9:00 p.m.	Council	<ul style="list-style-type: none"> Holds Community Forum at the Ludwick Community Center to receive and review goals presented by individuals, community groups, and advisory bodies.
January 10, 2013	Finance & Departments	<ul style="list-style-type: none"> Distributes and holds briefing on 2013-15 Budget Instructions.
January 14, 2013	Departments	<ul style="list-style-type: none"> CIP write-ups due to Finance for <i>new Fleet & IT</i> projects.
January 15, 2013	Finance	<ul style="list-style-type: none"> Distributes Community Forum results.
January 17, 2013	Finance	<ul style="list-style-type: none"> CIP packets to CIP Committee for <i>new Fleet & IT</i> projects.
January 22, 2013	Council	<ul style="list-style-type: none"> Submits goals to Finance.
January 24, 2013	Finance	<ul style="list-style-type: none"> Distribute consolidated Council member goals.
January 25, 2013	CIP Committee	<ul style="list-style-type: none"> Questions to departments on <i>new Fleet & IT</i> projects. Ranking and recommendation to City Manager on all Fleet & IT projects.
January 26, 2013 <i>Special Workshop</i> 8:30 a.m. to 4:00 p.m.	Council	<ul style="list-style-type: none"> Holds Saturday goal-setting workshop to discuss candidate goals presented at January 8 Community Forum; discusses Council member goals distributed on January 24; prioritizes and sets Major City Goals.
January 28, 2013	Departments	<ul style="list-style-type: none"> CIP write-ups due to Finance for <i>new general</i> projects.
January 29, 2013	Departments	<ul style="list-style-type: none"> Attend “usual suspects” briefing on outcome of Council goal-setting and coordinate work program preparation and next steps.
January 31, 2013	Finance	<ul style="list-style-type: none"> CIP packets to CIP Committee for <i>new general</i> projects.
February 2013		
February 4, 2013	Finance	<ul style="list-style-type: none"> Agenda report due for February 19 meeting (Mid-Year Review).
February 5, 2013	Department Heads	<ul style="list-style-type: none"> Brainstorm Major City Goal work programs.
February 12, 2013	CIP Committee	<ul style="list-style-type: none"> Questions to departments on <i>new general</i> projects.
February 13, 2013	CIP Committee	<ul style="list-style-type: none"> Questions to departments on <i>new general</i> projects (continued).
February 13, 2013	Departments	<ul style="list-style-type: none"> Submit operating budget requests, SOPC’s, Major City Goal work programs, department revenue estimates and narratives.
February 15, 2013	Finance	<ul style="list-style-type: none"> Summarize, compile and distribute Major City Goal work programs, SOPC’s and operating budgets to Budget Review Team.
February 15, 2013	CIP Committee	<ul style="list-style-type: none"> Ranking and recommendation to City Manager on all general projects.
February 19, 2013	Departments	<ul style="list-style-type: none"> CIP recommendation to project management staff to begin draft scheduling.
February 19, 2013	Council	<ul style="list-style-type: none"> Considers mid-year budget review.
February 19-22, 2013	Budget Analysts	<ul style="list-style-type: none"> Meet with departments to review operating budgets, SOPC’s and narratives.
February 25-March 1, 2013	Operating departments/BRT/City Manager	<ul style="list-style-type: none"> Review operating budget requests and Major City Goal work programs with operating department representatives.
March 2013		
March 5, 2013	Finance	<ul style="list-style-type: none"> Summarize results of budget reviews for distribution to BRT and City

When	Who	What
	Budget Review Team	<ul style="list-style-type: none"> Manager. Review financial position and craft SOPC recommendation for City Manager.
March 7, 2013	BRT/City Manager	<ul style="list-style-type: none"> Brief City Manager on Major City Goal work programs. Present operating budget recommendations to City Manager.
March 11, 2013	Finance	<ul style="list-style-type: none"> Begin preparing preliminary financial plan. Begin finalizing Major City Goal work programs packet and Council agenda report for 4/9 meeting.
March 18, 2013	Finance	<ul style="list-style-type: none"> Agenda report due for April 9 meeting (Major City Goals).
April 2013		
April 9, 2013 <i>Special Workshop</i> <i>6:00 to 10:00 p.m.</i>	Council	<ul style="list-style-type: none"> Approves detailed work programs for Major City Goals. Sets strategic budget direction in preparing Preliminary Financial Plan.
April 15, 2013	Departments	<ul style="list-style-type: none"> Draft CIP schedule submitted to City Manager.
April 16, 2013	Departments Finance	<ul style="list-style-type: none"> Revised SOPC's and CIP's due to Finance by noon. Begin work on Appendix B.
May 2013		
May 16, 2013	City Manager	<ul style="list-style-type: none"> Finalizes budget recommendations and approves preliminary budget.
May 21, 2013	Finance	<ul style="list-style-type: none"> Completes Preliminary Financial Plan and sends to printer.
May 22, 2013	Planning Commission	<ul style="list-style-type: none"> Reviews CIP for General Plan consistency.
May 24, 2013	City Manager	<ul style="list-style-type: none"> Issues Preliminary Financial Plan.
May 28, 2013	Finance	<ul style="list-style-type: none"> Agenda reports due for June 10, 11 and 12 meetings (Budget Workshops).
June 2013		
June 3, 2013	Enterprise funds	<ul style="list-style-type: none"> Agenda report due for June 18 meeting.
June 10, 11, 12, 2013 <i>Special Workshops</i> <i>Preliminary Budget</i> <i>6:00 to 10:00 p.m.</i>	Council	<ul style="list-style-type: none"> Holds evening workshops to review and discuss Preliminary Budget: <ul style="list-style-type: none"> June 10: Overview and General Fund operating programs. June 11: General Fund CIP projects. June 12: Enterprise Fund programs, CIP projects and rates.
June 18, 2013	Council	<ul style="list-style-type: none"> Holds continued Financial Plan review and adopts budget.
June 25, 2013	Council	<ul style="list-style-type: none"> If required, holds special meeting to continue review and adopt budget.

Key Council Dates in Bold

Community Forum

*6:00 PM to 9:00 PM, Tuesday, January 8, 2013
Ludwick Community Center*

- 6:00 **Welcome** Mayor
- 6:05 **Process, Current Goals, Measure Y Priorities and Fiscal Outlook** City Manager/
Interim 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 Measure Y 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 Measure Y priorities and 6 green for overall goal priorities.

Council Member Candidate Major City Goals

Please prepare up to 7 candidates for Major City Goals below and submit them to Finance by Tuesday, January 22, 2013. Since the Council will identify connections between the use of Measure Y revenues and Major City Goals, please note which suggestions address Measure Y 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. An electronic version of this form will be provided to you.

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

Note: Council Members will receive a copy of this form in the notebooks and via e-mail

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 Tuesday, January 22, 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. An electronic version of this form will be provided to you.

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Note: Council Members will receive a copy of this form in the notebooks and via e-mail

Council Goal-Setting Workshop
8:30 AM to 4:30 PM
Saturday, January 26, 2013
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 26, 2013 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.

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.
- 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.

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 in 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:

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 over-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.

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.

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:

- 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.
- 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:
 - 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?

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).

- 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.

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 in meeting 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.

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.
- 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 regarding investment management practices.

Members include the City Manager, Assistant City Manager, Director of Finance & Information Technology/City Treasurer, Finance Manager and the City's independent auditor.

- 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 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.

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 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. 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.

D. 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.

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.

E. 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.

F. 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.

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.
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.

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.

Given the City's fiscal situation for 2011-13, public art will be funded at the same level required by the private sector: 0.5% rather than 1%.

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.
- 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.
- 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:
 1. Funds borrowed for a project today are not available to fund other projects tomorrow.
 2. 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:
 1. 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.
 2. 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:
 1. The financing will be negotiated, and the underwriter has not separately engaged an underwriter's counsel for disclosure purposes.
 2. 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.
 3. The bonds will not be rated or insured.
 4. 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:

1. Public safety facilities.
2. Water supply, distribution and treatment systems.
3. Waste collection and treatment systems.
4. 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.
5. Storm drainage, creek protection and flood protection improvements.
6. Parks, trails, community centers and other recreational facilities.
7. Open space.
8. Cultural and social service facilities.
9. 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.
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.
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.

- 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

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.
 - 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)



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.

PRODUCTIVITY

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.

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

