

## 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 over the past twenty-four years, 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 overly-stimulated by artificially low prices.

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

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

### **C. Factors Favoring Low Cost Recovery Levels**

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

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

**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

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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

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

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

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

- i. Aquatics
- j. Batting cages
- k. Community gardens
- l. Junior Ranger camp
- m. Minor commercial film permit applications
- n. Skate park
- o. Special events (except for Triathlon and Holiday in the Plaza)
- p. Youth sports
- q. Youth STAR
- r. Teen services
- s. 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.

**H. Development Review Programs**

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

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

**I. Comparability With Other Communities**

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

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

**ENTERPRISE FUND FEES AND RATES**

- A. Water, Sewer and Parking.** The City will set fees and rates at levels which fully cover the total direct and indirect costs—including operations, capital outlay, and debt service—of the following enterprise programs: water, sewer and parking.

- B. **Golf.** Golf program fees and rates should fully cover direct operating costs. Because of the nine-hole nature of the golf course with its focus on youth and seniors, subsidies from the General Fund to cover indirect costs and capital improvements may be considered by the Council as part of the Financial Plan process, along with the need to possibly subsidize direct operating costs as well.
- C. **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.
- D. **Ongoing Rate Review.** The City will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate and equitable.
- E. **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 recent 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.

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

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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 & 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.

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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,

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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. **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.
- D. **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: \$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 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 four-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 2009-11, 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:

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

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

***Factors Favoring Long Term Financing***

- d. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
- e. The project securing the financing is of the type, which will support an investment grade credit rating.
- f. Market conditions present favorable interest rates and demand for City financings.
- g. A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
- h. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
- i. The life of the project or asset to be financed is 10 years or longer.

**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:
  - a. Funds borrowed for a project today are not available to fund other projects tomorrow.
  - b. Funds committed for debt repayment today are not available to fund operations in the future.

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

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

**D. Independent Disclosure Counsel**

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

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

districts, tax allocation bonds or conduit financings.

- c. The bonds will not be rated or insured.
- d. The City's financial advisor, bond counsel or underwriter recommends that the City retain an independent disclosure counsel based on the circumstances of the financing.

**E. Land-Based Financings**

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

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

- a. Public safety facilities.
- b. Water supply, distribution and treatment systems.
- c. Waste collection and treatment systems.
- d. Major transportation system improvements, such as freeway interchanges; bridges; intersection improvements; construction of new or widened arterial or collector streets (including related landscaping and

lighting); sidewalks and other pedestrian paths; transit facilities; and bike paths.

- e. Storm drainage, creek protection and flood protection improvements.
- f. Parks, trails, community centers and other recreational facilities.
- g. Open space.
- h. Cultural and social service facilities.
- i. Other governmental facilities and improvements such as offices, information technology systems and telecommunication systems.

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

- 3. **Active Role.** Even though land-based financings may be a limited obligation of the City, we will play an active role in managing the district. This means that the City will select and retain the financing team, including the financial advisor, bond counsel, trustee, appraiser, disclosure counsel, assessment engineer and underwriter.

Any costs incurred by the City in retaining these services will generally be the responsibility of the property owners or developer, and will be advanced via a deposit when an application is filed; or will be paid on a contingency fee basis from the proceeds from the bonds.

- 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-date 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.

**G. 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)

**PRODUCTIVITY**

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

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

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

