

# Budgetary Policy

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COUNCIL POLICY 12.3

POLICY TITLE: BUDGETARY POLICY

## POLICY STATEMENT:

Development and adoption of the City of Santa Cruz budget will conform to the following, high-level, best-practice budgetary principles. These principles guide the intent to create a responsible, secure budget and sound long-term fiscal planning to ensure the continuity of quality services to the community.

The principles were drawn from the City's Charter, Council Policies, current best practices, and leading national best practices from the Government Finance Officers Association (GFOA) as well as California policy recommendations from the League of California Cities and the California Society of Municipal Finance Officers.

This summary provides an overview of the following, primary principles:

1. The City shall adopt an on-time, structurally balanced budget
2. The City shall develop the budget calendar to prioritize community engagement and education
3. Performance measures will be developed
4. One-time resources shall be matched with one-time spending
5. A long-term fiscal plan shall be developed and updated
6. Fees for services shall default to full cost recovery

1. The City shall adopt an on-time, structurally balanced operating budget

The City's Charter requires that the budget be presented to the City Council no later than the first meeting in June and adopted no later than the first meeting in July. In addition, it requires that the City Manager present strategies when spending is projected to outpace income and further requires that when this occurs, the City Council "shall, by resolution, make necessary changes in any appropriations."

This principle would ensure that the City does not spend beyond its means. The City has followed guidance by GFOA which defines a "structurally balanced budget" as a budget where recurring revenues equal or exceed recurring expenditures. Nonetheless, as allowed by the Charter and defined in the City's reserve policies, the City may transfer from reserves to fund operational gaps, but the Charter also references the need to restore reserves. Note that this principle does not apply to capital investment projects or to other non-General Fund operations.

2. The City shall develop the budget calendar to prioritize community engagement and education

The City will build each year's budget calendar with an emphasis on community engagement and outreach related to the City's financial condition, proposed changes in budget, and other themes such as alignment with the City's goals. In addition, the City will create opportunities throughout the year to educate and engage with the Council and community about the City's operations and programs.

### 3. Performance measures will be developed

The City will develop performance measures to support City strategic goals and will evaluate and refine those measures over time. Measures selected should be useful, relevant, reliable, adequate, and consistently and efficiently collectable.

### 4. One-time resources shall be matched with one-time spending

A core principle in adopting a balanced budget and developing a long-range financial plan is to fund ongoing operations with ongoing resources and hold one-time, short-term resources for building reserves or funding one-time or short-term expenses. Common examples of one-time resources are the sale of City owned property, annual surpluses, unusual development revenues, large reimbursements, and expiring grants.

### 5. A long-term fiscal plan shall be developed and updated

The City shall continue to develop long-term fiscal plans. These plans will be developed, revised, and updated to include strategies to move toward predictable, long-term sustainable operations. As part of the implementation and ongoing maintenance of the long-term fiscal plan, certain strategies should be considered:

- Multi-year forecasting for all major funds and operations will be relied on to guide budgetary decisions. Forecasts shall include reasonable assumptions for changes in personnel costs, capital and equipment costs, maintenance costs, and other operating costs.
- Reserves shall be established and include planned funding targets to ensure they are sufficient for emergency, capital renewal, and operational contingency needs.
- Equipment required for operations and maintenance of City facilities and infrastructure shall be included as an operating cost. The City will continue the practice of incorporating into its annual operating plan the replacement of core equipment and maintenance in a manner that balances primary factors such as cost effectiveness, safety, and operational necessity.
- Staff shall develop and include in the annual budget additional strategies to reduce the cost of unfunded retirement liabilities and preserve the retirement systems. This could include cost avoidance strategies like allocating any unused budget appropriation towards the reduction of future retirement costs.
- Facility replacement fund shall be established with targeted annual contributions. This principle would direct staff to return with a policy and broader discussion of the plan for maintenance, replacement, and/or retirement of its current capital assets inventory. It is a best practice to ensure that needed capital assets or improvements receive appropriate consideration in the budget process and that older capital assets are considered for retirement or replacement.

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### 6. Fees for services shall default to full cost recovery

This principle ensures that all General Fund fees for requested services, excluding certain Parks and Recreation fees, shall ultimately be set to reach full cost recovery and that they shall be reevaluated at least every five years. In addition, any new customer service fees shall be set at the current cost recovery rate as calculated by or verified by the Finance Department in a manner consistent with the last fee study. Finally, cost recovery calculations shall include both direct and indirect costs such as operating and maintenance costs, overhead, and charges for use of capital (depreciation and debt service).

AUTHORIZATION: Council Policy Manual Update of November 17, 1998

Revised by Resolution No. NS-29,468 on December 11, 2018