

 <p style="text-align: center;"><b>City of Santa Ana</b> Council Policy</p>	
	Mayor's Authorization
Subject <b>BUDGET AND RESERVE POLICY</b>	Council Approval Date: March 16, 2021

This policy supersedes *Budget and Financial Policies* approved by City Council on June 6, 2017.

**PURPOSE**

This *Budget and Reserve Policy* includes directives to balance the budget and provide information to support long-range financial decisions, and Reserve requirements to mitigate risk and support cash flow. Development of this policy included a risk assessment and cash flow analysis, as well as best-practice recommendations from the Government Finance Officers Association (GFOA), a national non-profit organization providing training and interpretation of accounting and financial reporting standards applied to the government sector since 1906. This policy compliments budget requirements contained in the City's Charter and Municipal Code.

**UNRESTRICTED FUND BALANCE**

The City's audited financial statements of assets and liabilities are presented in two formats: the Government-wide Statement of Net Position (full-accrual accounting), and the Fund Financial Balance Sheet (modified accrual accounting focused on available resources and current liabilities). Both presentations include the concept of restricted balance and unrestricted balance. In the Fund Financial Balance Sheet, unrestricted balance is comprised of committed, assigned and unassigned amounts. Committed and assigned amounts are spending constraints self-imposed by the City. This policy refers to the Unrestricted Fund Balance as the Reserve amount.

**NON-RECURRING RESOURCES**

Non-recurring resources include Unrestricted Fund Balance and one-time revenue (e.g. legal settlement, sale of property, etc.). The City Council may elect to fund recurring costs with non-recurring resources in either of the following circumstances:

1. The City Council declares a fiscal emergency or local emergency.
2. The City Council approves the use with a two-thirds vote for documented loss of revenue pursuant to an economic downturn or unusual circumstance.

**GENERAL FUND**

Background

The General Fund is the primary operating fund of the City. It accounts for all general purpose unrestricted revenues including sales tax, property tax, locally levied taxes, fees for service and fines. The General Fund accounts for the operating costs of core city services including public safety, recreation, land-use regulation, public facility maintenance, and governance.

General Fund Budget Directives & Long-Range Planning

To support the ongoing fiscal health of the General Fund, the following directives are established.

- The City Manager shall annually present a balanced budget to the City Council for adoption, defined as proposed spending not exceeding available resources.
- Non-recurring resources should only fund non-recurring or capital costs.

- Revenue estimates will be conservative to avoid a resource shortfall for planned service delivery.
- The City will continue to pursue internal operational efficiencies and strategies, such as technology modernization, to minimize City costs and enhance the accessibility of City services.
- All proposals for new or upgraded capital facilities must include estimated costs to operate, maintain, and replace the facilities.
- To assist the City Council with decision-making, staff shall annually prepare a minimum ten-year projection to identify long-term impacts to the General Fund budget.

**Reserve Requirement**

To mitigate risk and support cash flow, the General Fund will maintain an Operating Reserve of the Unrestricted Fund Balance equivalent to a minimum of 18% of annual recurring revenue. As recurring revenue increases, so shall the Operating Reserve. A documented plan to replenish the Operating Reserve must accompany any City Council authorized use of the Operating Reserve, pursuant to the guidelines for use of non-recurring resources outlined above. A plan for replenishment may include reduction of expenditures, one-time money, favorable budget variances, and/or new revenue sources.

**INTERNAL SERVICE FUNDS**

**Background**

The City utilizes Internal Service Funds to administer and account for centralized services provided by one City department/division to another City department/division. Examples include building maintenance, general liability insurance, and information technology. The centralized service divisions fund operations and equipment replacement with cost-recovery charges to the receiving department budget.

Internal Service Fund Reserves provide a funding source for capital asset replacement (e.g. fleet vehicles), actuarial determined liabilities (e.g. workers compensation), and an operational cushion for unanticipated or extraordinary costs. This policy establishes general guidelines for target Reserve balances and cost-recovery rate structure to fund current operations and Reserve replenishment.

**Target Reserve Balances**

<b>Internal Service Fund</b>	<b>Target</b>
Central Services (mail, reprographics)	100% of capitalized equipment cost + 20% of annual operating costs
Building Maintenance	100% of annual operating costs due to high risk of aged facilities
Equipment Replacement for Vehicles	100% of the cost of capitalized equipment
Fleet Vehicle Maintenance	20% of annual operating costs
Stores & Property Control (fuel and warehouse inventory)	20% of annual operating costs
Liability & Property Insurance	80% of liability, actuarially determined every two years
Employee Group Insurance	None, as this fund serves an accounting purpose only with zero net fiscal impact.
Workers Compensation	80% of liability, actuarially determined every two years
Information Services	100% of capitalized equipment cost + 20% of annual operating costs
City Yard	20% of annual operating costs
Public Works Engineering & Project Management	None, as this fund serves an accounting purpose only with zero net fiscal impact.
Public Works Administration & Planning	None, as this fund serves an accounting purpose only with zero net fiscal impact.

### Cost Recovery Rate Structure

Each year, the managing department shall estimate the cost of operations and any shortfall for the target Reserve balance. These estimates will serve as the basis for cross-department charges. Proportional use of the service will determine the allocation of estimated costs to departments/divisions. Employee compensation increases are limited to City Council approved agreements with bargaining groups. Any proposed workforce changes must follow the City's normal proposal and approval process. Other proposed cost increases, including Replenishment of Reserves, must be limited to the annual increase in the Consumer Price Index (CPI) at December 31, or otherwise submitted as a supplemental budget request subject to City Manager recommendation and City Council approval. The Budget Office may recommend spreading Reserve replenishment over a reasonable number of years to smooth the budget impact.

### **OTHER FUNDS**

Other funds of the City account for revenues restricted to specific spending purposes. Many of these restrictions do not allow the City to carry a Reserve balance (e.g. federal grant funds). Funds with spending constraints self-imposed by the City (e.g. Cannabis Public Benefit Fund) do not need a Reserve, as the General Fund provides risk mitigation and cash flow. If allowed by external restrictions, the target Reserve balance for other funds shall be 20% of the fund's annual operating costs. Professionally developed rate studies for Enterprise Funds (e.g. Water, Sewer) may recommend a reserve requirement in excess of the 20% target.