



City of Santa Ana
Council Policy


Mayor's Authorization

Subject
BUDGET AND FINANCIAL POLICIES

Council Approval Date:
June 6, 2017

Background

The severity of the recent economic recession highlighted the need to establish and maintain adequate reserve policies to offset significant economic downturns and unforeseen rising costs more effectively. In 2002, The Government Finance Officers' Association (GFOA) recommended reserve levels equal to a minimum of 5% to 15% of operating revenues or one to two months of operating expenditures as a basis to establish sound reserve levels. Adoption of a formal City Budget and Reserve Policy will provide a basis to manage significant financial events more effectively in the future.

PURPOSE

The City's reserve policy will define the recommended level for reserves for the General Fund as well as internal and enterprise operations. The policy will outline a timeframe and plan that will assist the City in meeting the minimum General Fund requirements over the course of the next few years. It will also establish criteria for the use of reserves and establish a process by which to replenish reserves if used. It is the intent to focus on the General Fund initially and incorporate additional reserve policies for internal and enterprise funds over the next fiscal year.

GENERAL FUND

The General Fund is the general operating fund for the City. It accounts for all general revenues including sales tax, property tax, business tax, hotel visitor's tax, as well as other fees and charges. It is the basis to fund general ongoing City operations such as police, fire (contract service), recreation, planning and building as well as other general support services. Furthermore, the following budget policy directives are recommended to be continued/implemented in order to maintain positive operating reserve levels:

General Fund Budget Policy Directives

- It shall be established that a balanced budget will be presented annually to the City Council for adoption. A balanced budget will be defined as ongoing recurring operating revenues matching ongoing recurring operating expenditures including debt service.
- One time or term specific funding can only be used to match one-time non-recurring expenditures with the exception of during a budget deficit, term specific projects and programs, as well as capital expenditures.
- In order to ensure a balanced budget objective, the City will continue to pursue internal operational efficiencies and strategies, such as technology, that minimize City costs and impacts to City services.

- In order to ensure proper maintenance of a continued balanced budget, the City Council will adopt a compensation and retirement benefit directive that provides guidance and conforms with the established budget directives and reserve requirements as outlined in this policy.

One-Time Monies

Fund Balance determined to be one-time in nature, including but not limited to: ending operating balance, unallocated fund balance or un-appropriated "Assigned" fund balance is herein classified as "One-Time monies". Utilization of one-time monies is allowable upon two-thirds approval by the City Council to be utilized in the event a structural budget deficit exists. Use of one-time funds is allowable for one-year and may be eligible for two consecutive years upon further consideration by the City Council.

Unassigned Fund Balance

In accordance with Governmental Accounting Standards Board (GASB) 54 and continuing to ensure a continued orderly operation of City Government and address any unforeseen economic occurrences, the City shall establish the following Reserve Accounts within the Unassigned Fund Balance category:

- Operating Reserve
- Economic Uncertainty Reserve
- Unallocated Amount

As a result of the GASB 54, the following fund balance categories were also created: Non-Spendable; Restricted; Committed; Assigned and Unassigned.

Operating Reserve Account

As a measure of prudent fiscal health and recommendations made by GFOA, the City created an Operating Reserve Account, disclosing a range where two months (approximately 16.67%) up to twenty percent (20%) of recurring General Fund (011) operating revenues or expenditures (including transfers) are maintained. At no time is it permissible for the Operating Reserve requirement to fall below the above-referenced threshold range.

Such Operating Reserves shall not be used to fund any form of operating expenditures or to cover any budgetary shortfall other than to preserve ongoing cash flow needs for the City. If at any point in time it is deemed that the City budget is performing at a budgetary structural deficit and a "Fiscal Emergency" is declared, the use of the above-referenced Operating Reserve account is permissible for up to two consecutive fiscal years upon approval by two thirds of the City Council. The utilization of the Operating Reserve in Year Two (2) requires a plan to replenish the funds utilized.

As a matter of prudence and fiscal solvency and in the event of a projected and/or realized structural deficit (budget basis), the City will utilize Economic Uncertainty (see below for account description) account funds prior to accessing the Operating Reserve account.

Economic Uncertainty Account

- It is hereby established that upon fulfillment of achieving a minimum Unassigned Reserve Account of 10%, the City shall consider the establishment of a reserve account for Economic Uncertainty. The reserve for Economic Uncertainty is established to offset any major variations in tax receipts as well as fees and charges or unforeseen cost increases. It is hereby established the City maintain a minimum reserve level of 1 to 10% of recurring General Fund revenues with an objective of attaining a maximum goal of 10%.

- Upon determination by the Finance Department, that negative variations in projected revenues from the largest revenue sources defined as Sales tax, Property tax, Property tax in Lieu, Utility Users tax, Business Tax, and Hotel Visitors tax exceed 2% with no corresponding General Fund expenditure offset, then the

City Council may authorize use of the Economic Uncertainty Reserve by a two-thirds vote to offset the revenue loss prior to the close of the fiscal year end. A corresponding plan to replenish the reserve account must be adopted by the same vote.

- Upon determination by the Finance Department and report submission to the City Council that a structural deficit exists in the budgeted forecast of the upcoming fiscal year, the City Council may authorize use of the Economic Uncertainty Reserve to balance the budget by two thirds vote of the Council. However, authorization to utilize the Economic Uncertainty Reserve beyond two consecutive years is strictly prohibited.

General Work Plan for Achieving General Fund Reserve Objectives

The following work plan is intended to reach the unassigned reserve account of 15% in phases. The initial objective is to attain at least a 5% threshold over the course of the following fiscal year and between 7% and 8% over the subsequent fiscal year. Upon attainment of the phased objectives, a comprehensive review of the general financial condition of the City will be completed and a new reserve work plan will be developed and submitted for approval that outlines the next intermediate steps for meeting the main objective of a reserve target level of 15%. Until such time that the General Fund Unassigned Reserve meets the minimum phased requirements as outlined above, the following budgetary and operational guidelines shall be used as a basis to achieve the various minimum requirements.

- Budget consideration of new programs, personnel, or capital related expenditures shall only be considered if a source of funding is identified either through a corresponding cost reduction, an identified general increase in general tax revenue, or a one-time revenue infusion. Source of funding should include consideration of ongoing general maintenance and operational costs.
- Departments will be encouraged to continually achieve savings through internal organizational efficiencies.
- Technology will be encouraged if it can be demonstrated that a one-time capital infusion can result in savings being generated beyond two years.
- Any General Fund savings generated at the fiscal year end can be considered either for term specific operational or capital needs but a minimum of 50% (up to 100%) of the savings shall be deposited into the unassigned reserve balance until such time that the phased reserve levels are met.
- Any internal service fund that has funds in excess of the identified minimum reserve requirement as outlined in this policy, can be utilized as a means to meet the minimum General Fund Reserve requirements. Only unrestricted funds deemed transferable can be utilized. Any transfer to the General Fund Unassigned Reserve Balance will be submitted to Council for consideration and approval.
- In order to generate additional savings and until such time that the minimum level of reserves has been achieved, the Budget Office will only utilize a fiscally conservative profile for revenue projections.
- If the phased reserve target requirements as outlined above have not been met it is recommended that beginning in FY 14-15 a more conservative projection factor be used to generate forced budgetary savings:

(NOTE: Each 1% equates to approximately \$ 2 million)
FY 12-13: 100 % of recurring revenue projected;

FY 13-14: 100 % of recurring revenue projected;
FY 14-15: 99 % of recurring revenue projected;

Such factors shall be used to generate General Fund savings until such time that a 7%-8% unassigned General Fund reserve has been achieved.

Any generated General Fund savings achieved after reaching between a 7%-8% undesignated General Fund reserve shall be applied in the following order:

Up to a max of 25% -Unassigned General Fund Reserve

Up to a max of 25% -Economic Uncertainty Reserve

Up to a max of 50% -Can be applied to term specific programs, projects, personnel as well as deferred capital maintenance.

Internal Service Funds

Background

Internal Service Funds are established to administer and account for various activities whose purpose is to provide for goods and services to support other departments for their ongoing operational and programming needs. The delivery of these services is recovered on a cost recovery basis.

Purpose

It is the intent of the Internal Service Fund Reserve Policy to establish general guidelines as to the establishment of a proper recovery rate structure and define an appropriate level of reserves for each Internal Service Fund. It will also establish criteria for the use of reserves and establish a process by which to replenish reserves if utilized. Although this policy only addresses the Risk Management Funds (i.e. Liability and Property Insurance and Workers Compensation Fund), it is the intent to build upon and include all internal service funds within this policy.

Risk Management

The Risk Management programs are established to protect the City's assets through the administration of a properly funded liability claim and insurance program and by minimizing the cost and effect of work-related injuries. Rates for these programs are established on a biennial actuarial basis.

Reserves

Reserves for these accounts will be funded at not less than 80% as defined in the actuarial study. In addition, three months of operational reserves will be included to address any variations related to revenues and expenditures. Any surplus amounts defined in these accounts from general agencies shall be available for transfer to the General Fund until such time that the General Fund reserve meets the minimum requirement of 15% or to establish the reserve for Economic Uncertainty. Transfers shall be submitted to Council for approval. There after any surplus can be used to fund any deficits identified in other Internal Service Fund reserves, as well as other unfunded capital and deferred related maintenance.