



City of Sonoma

BUDGET AND FISCAL POLICY

1. Purpose

The City of Sonoma (City) establishes this Budget and Fiscal Policy (Policy) to provide comprehensive guidelines for budget development, adoption, implementation, and fiscal management.

2. General Guidelines

The City adopts a budget annually to be effective July 1, for the ensuing fiscal year. Budgets are adopted on a basis substantially consistent with Generally Accepted Accounting Principles (GAAP). Budgeted expenditures are adopted through the passage of a resolution. This resolution constitutes the maximum authorized expenditures for the fiscal year and cannot legally be exceeded except by subsequent amendments of the budget by the Sonoma City Council (Council).

One or more public hearings are conducted on the proposed budget to review all appropriations and sources of financing.

3. Multi-Year Financial Projections

To support the City's budgetary planning and financial decision-making process, the City analyzes trends and key factors impacting its economic and financial status. This long-term perspective is a valuable planning tool. It gives early warning of any adverse trends and allows Council and staff to craft timely budget strategies and solutions to address the trends. Staff will prepare a five-year financial forecast for the General Fund and update the forecast on an annual basis as part of the City's annual goal setting and budget development process. This five-year financial plan shall provide a discussion of forecasted risk and the assumptions used as the basis for major revenue and expense items.

Staff will also prepare and annually update a five-year Capital Improvement Program (see section 9).

4. Budget Development Principles

The following general principles are designed to help guide budget planning and development. The City will strive to:

- **Use a transparent process and informed financial decision-making.** The City will conduct its financial business with transparency. The City will proactively pursue ways to make budget information publicly available, accessible, and easy to understand for all community members. City staff will identify and evaluate short and long-term impacts of issues for community and Council consideration.
- **Adopt a structurally balanced budget.** The General Fund operating budget will be structurally balanced, with recurring expenditures (including debt service) funded with recurring revenues. One-time revenues and reserves will be used only for non-recurring expenditures.

When, for a variety of reasons, true structural balance may not be possible for a given fiscal year, use of reserves to balance the budget may be considered to address temporary shortfalls or to ease the transition to downsized and/or reorganized operations. Use of reserves to fund recurring expenditures will be considered in the context of a plan to return to structural balance, replenish fund balance and reserves, and mitigate the negative impacts of any other short-term balancing actions that may be taken.

- **Achieve financial sustainability.** The City will strive to maintain a strong and diversified revenue base to fund a level of expenditures that provides for the public well-being, safety, and quality of life for residents in the community. The City will proactively identify and monitor long-term financial liabilities, including unfunded pension obligations, and strive to manage these commitments in a way that prioritizes the City's long-term financial sustainability. The City recognizes a responsibility as an employer to appropriately fund staff compensation to attract and retain a skilled workforce while maintaining long-term fiscal sustainability and a balanced budget. The City will work to identify sufficient funding sources for capital improvements to prevent significantly higher costs at a later time due to deferred investment in infrastructure.
- **Seek efficiency and effectiveness.** Staff will continuously explore ways to reduce costs while preserving or enhancing the community's desired outcomes and results. Budget increases or reductions will be analyzed in terms of both the impact on current levels of service to the community as well as potential indirect and long-term impacts. Community programs and services will be regularly evaluated to ensure needs are met in the most effective and efficient way possible. Use of consultants, contractors or limited term or part-time positions will be considered for situations when it is more cost-effective than hiring a full-time position. Organizational efficiency will be supported with ongoing investment in technology and equipment, especially when staffing is limited.

5. Revenue Expansion and Distribution

An economic development strategic plan shall be developed and implemented to expand the City's revenue base and provide a net resource gain.

Additional revenue sources such as grants will be sought to augment City resources, provided that local match requirements and maintenance of effort provisions are not unsustainable over time.

The City will adopt user fees where appropriate, based on Council direction to establish desired levels of cost recovery. Fees and charges for services will be determined based on the total direct and indirect cost of the activity, where applicable. In general, City policy is to charge for the full costs of services provided when such services benefit individual users rather than members of the community as a whole. In certain circumstances, the Council may determine that it is appropriate to subsidize user fees.

The City Council recognizes that generally accepted accounting principles for state and local governments discourage the "earmarking" of general tax revenues, and accordingly, the practice of designating general tax revenues for specific programs should be minimized in the City's management of its fiscal affairs. This policy does not prevent the Council from directing General Fund resources to support particular functions and programs.

6. Cost Allocation Plan

The City shall maintain and regularly update a cost allocation plan which shall be used to recover indirect costs to the General Fund from other City funds, outside funding sources, and fee-supported programs. Through the cost allocation plan, funds are assessed administrative and overhead costs to reflect the true cost of doing business. This plan provides a reimbursement to the General Fund for central services costs such as custodial services, personnel services, financial services, and other administrative services and support provided to other fund operations. Updates to the cost allocation plan will occur, at a minimum, every five years. During years between updates, a factor reflecting a blended expenditure increase will be added to the existing amount.

7. Vehicle and Technology Replacement and Long-Term Building Maintenance

Sufficient reserves will be maintained for the planned and systematic replacement of existing vehicles and related equipment (Vehicle Replacement Fund); for the operational costs, maintenance, and planned replacement of installed computer systems as well as software, telephone systems and other critical office equipment (Information Technology Replacement Fund); and for the future replacement or repair of certain maintenance items such as re-painting, re-flooring, re-roofing and mechanical equipment replacement in existing City owned building facilities (Long-Term Building Maintenance Fund).

Internal Service Funds (ISF) are used to provide a funding mechanism for certain expenditures made in support of City operating departments on a cost reimbursement basis.

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Internal Service Funds are self-supporting through charges to departments and/or funds. Use of Internal Service Funds helps to prevent large swings in annual costs by anticipating future needs and amortizing replacement costs over a period of time. Internal service rates will be updated annually to ensure charges to departments can pay for the timely replacement of equipment and major maintenance costs. Capital outlays for purchases of replacement equipment are budgeted in the Internal Service Funds, while capital outlays for new equipment are included within the operating program budgets.

8. Interfund Transfers and Loans

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.

Interfund Transfers: Any transfers between funds for operating purposes are clearly set forth in the annual budget and can only be made by the City Manager or designee.

Interfund Loans: These are loans from one City fund to another City fund for a specific purpose with a requirement for repayment by a specified date. Interfund loans must be approved by the City Council and include terms for the management and repayment of the loan.

9. Capital Improvement Program (CIP) Budgeting

The Capital Improvement Program (CIP) is a planning and budgeting tool to support the community through investment in public infrastructure throughout the City. 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. A five-year CIP is an important strategic planning document that displays the City's future needs and captures community priorities. In general, construction projects included in the CIP have a life span of at least ten years.

Funding for projects in Year 1 of the CIP is part of the City's annual budget process. Projects with funding in years 2-5 of the CIP are recommended on a planning basis only. Capital projects may be subject to delays in scheduling for various reasons, including if the collection of project revenues falls below projections.

Capital projects should be placed in the CIP in accordance with regularly updated Master Plans, which are third-party long-term recommendations for infrastructure improvement, maintenance and replacement. Master Plans identify how to keep specific systems operational and improved over 10-20 years and should be updated generally every 5-7 years.

Capital project appropriations shall remain in effect until the project is completed or until modified in a subsequently adopted budget.

Only funds, not individual capital projects, shall accrue interest.

10. Budget Control

Expenditures are controlled at the fund level for all budgeted departments within the City. This is the level at which expenditures may not legally exceed appropriations.

Operating Budget: The City Manager or designee is authorized to transfer General Fund operating budget appropriations within and between departments. Any amendments to the total level of net appropriations for a fund, or transfers between funds, must be approved by the City Council.

Capital Improvement Program Budget: The City Manager or designee is authorized to transfer budget between CIP projects within a fund; however, City Council approval is required for capital project cost increases in excess of 10% of a project's current total authorized budget. Any amendments to the total level of net appropriations for a fund, or transfers between funds, must be approved by the City Council.

Supplemental appropriations financed by unanticipated revenues during the year must be approved by the City Council.

11. Budget Status Reporting and Midyear Adjustments

Monthly financial reports will be prepared and provided to the City Council to provide a financial update on the General Fund and will include year-to-date revenues and expenditures vs. budget, as well as expenditure detail.

Each year, a midyear budget review will be presented to the City Council for review (typically during the third quarter of the fiscal year). The report will include recommendations for Council action to amend the budget as necessary.

Any major or critical budgetary issues will be reported to Council as soon as it is practical.

12. Year-End Surplus

Any year-end surpluses in the operating budget will be used to increase fund balance reserves and utilized in accordance with the City's Reserve Policy. Unexpended appropriations in the operating budget for projects that are in progress and not anticipated to be completed by the end of a fiscal year will be included in the proposed operating budget for re-appropriation in the following year.

The City Manager or designee may choose to implement an encumbrance system as an extension of normal budgetary accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end will be reviewed by the City Manager to determine if

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there is still a need for the encumbrance to be re-appropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end.

13. Fiscal Analysis

In order to aid in making policy decisions, a brief fiscal analysis will be included with all City Council staff reports which involve decisions for spending, revenue, debt, or other potential economic impact. For any expenditure, the funding source must be identified as well as whether the expenditure has been budgeted. In addition, for any proposed City Council action impacting City finances or its economic situation, the projected or potential fiscal impact on current and future revenues and expenditures shall be analyzed. A discussion on any overall economic impacts to the City, if relevant, will also be included.

14. Policy Review

The Finance Department will review this policy at least bi-annually and make recommendations for change, as needed.

Reviewed by the City of Sonoma's Finance Committee on February 9, 2021.

Approved by the Sonoma City Council on February 17, 2021 via Resolution No. 09-2021

City of Sonoma

RESOLUTION # 09 - 2021

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SONOMA TO ADOPT A NEW CITY OF SONOMA BUDGET AND FISCAL POLICY

WHEREAS, the Government Finance Officers Association (GFOA) guidance for City Governments on best practices and sound financial management recommends that Governments should formally adopt financial policies; and

WHEREAS, financial policies are central to a City's strategic, long-term approach to financial management; and

WHEREAS, financial policies help local governments:

1. Institutionalize good financial management practices.
2. Clarify and crystallize strategic intent for financial management.
3. Define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
4. Define limits on the actions staff may take and provide a framework within which staff can innovate in order to realize the organization's strategic intent.
5. Support good bond ratings and thereby reduce the cost of borrowing.
6. Promote long-term and strategic thinking.
7. Manage risks to financial condition. A key component of governance accountability is not to incur excessive risk in the pursuit of public goals; and

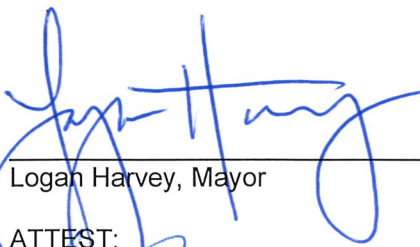
WHEREAS, the GFOA recommends adoption of a Budget and Fiscal Policy that establishes and endorses key accounting principles, describes essential features of the budget development process and form, contains principles that guide budgetary decision making and structurally balanced budgets, outlines regular budget status and reporting and multi-year financial projections, describes essential feature of capital improvement program budgeting, and principles of economic development; and

WHEREAS, the City Council's Finance Committee met in a public meeting on Tuesday, February 9, 2021 where they reviewed the Budget and Fiscal Policy and recommended that the policy be forwarded to City Council for formal adoption.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Sonoma hereby adopts the City of Sonoma's Budget and Fiscal Policy as detailed in Attachment A to the resolution.

The foregoing Resolution was duly adopted this 17th day of February 2021 by the following roll call vote:

AYES: **AGRIMONTI, DING, HARRINGTON, HARVEY**
NOES:
ABSTAIN:
ABSENT:



Logan Harvey, Mayor

ATTEST:



Rebekah Barr, MMC, City Clerk