



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: March 3, 2009
TO: Finance Committee
FROM: Administration Division, Finance Department
SUBJECT: Infrastructure Financing Task Force Recommendations – Review Of Financial And Reserve Policies

RECOMMENDATION:

That the Finance Committee review the Infrastructure Financing Task Force's recommendations on the City's financial and reserve policies.

DISCUSSION:

A number of the recommendations of the Infrastructure Financing Taskforce (IFT) address the financial and reserve policies established in Resolution numbers 95-156 and 95-157. Copies of the IFT recommendations and the two 1995 resolutions are attached.

The financial and reserve policies established by the 1995 resolutions have not been formally reviewed since adoption. Even before the IFT had been established, the Finance Committee had expressed a desire to review the City's reserve policies. Once the IFT had been established, staff recommended that the Finance Committee await the Taskforce report in order to include consideration of any Taskforce recommendations on the financial and reserve policies established in the resolutions

Staff anticipates that a thorough review of the IFT financial and reserve policy recommendations and the related policies contained in the resolutions will take more than one meeting. Based on this, staff is not expecting the Committee to reach any conclusions or develop any recommendations at this meeting.

In this first meeting, Staff plans to review and discuss the IFT recommendations, the two resolutions and present some comparative information on reserve policies and funding levels from other cities. This information can then form the foundation for future discussions and recommendations which will take place over the coming weeks.

ATTACHMENTS:

1. Financing Recommendations of the IFT
2. Management and Policy Recommendations of the IFT
3. Resolution No. 95-156
4. Resolution No. 95-157

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office

Financing Recommendations of the IFT

Financing Recommendations

1. Revise Resolution No. 95-156 to commit the City to immediately increase efficiency of all the resources under its control by 2-3% annually, to free up additional funds for infrastructure needs. Review results at the end of the second year.
2. Revise Resolution No. 95-157 to commit the City to implement and achieve an annual 10% "off-the-top" General Fund capital allocation no later than FY 2012 to be spent annually for infrastructure projects or essential borrowing to core services based on increased revenue growth and operating efficiencies.
3. Revise the Capital Reserve requirements for Resolution No. 95-157 to 5% of the estimated replacement value of capital assets instead of book value; and the goal of the General Fund Capital Reserve shall be set at \$5 million in addition to the 10% General Fund capital allocation.
4. Change the City's fiscal policies to fund accrued depreciation and facility renewal costs at replacement rather than book value for all municipal facilities.
5. Fully fund the annual facility renewal costs of approximately \$2.1 million and conduct the work needed on a regular basis.
6. Assess the potential for adding a 0.5% local sales tax, either as a new funding source for critical infrastructure projects or to replace funds that may be lost from Measure A and Measure G if they are not approved.
7. Expand the use of public-private charitable partnerships, in support of key civic activities.
8. Explore the potential of securing greater cooperation between the public and private sector in the form of public-private partnerships or "performance-based infrastructure" (PBI) investments.
9. Establish fair market rates for all boating and slippage fees in the harbor that are both equivalent to similar southern California cities and sufficient to cover the full (direct and indirect) costs of providing marina services.
10. Use the General Fund to provide contingency backing for debt for various Enterprise Funds so long as it does not compromise the City's ability to borrow for General Funds' own infrastructure needs.
11. Explore options for collateralizing and bonding future revenue streams (such as the City's share of the State gasoline tax) as a means for providing funds for infrastructure improvements if other sources of revenue dry up.
12. Maintain the option of issuing new voter approved General Obligation Bonds to pay for major infrastructure projects.

Management and Policy Recommendations of the IFT

Management and Policy Recommendations

1. Make the funding of a new Police Station and adequate Fire and Emergency disaster facilities the highest capital infrastructure priorities for the General Fund.
2. Designate the Waterfront Department as responsible for the operation, maintenance and support of all recreation, boating, and harbor activities to the east of Cabrillo Boulevard – including the operation of the Cabrillo Bathhouse, East Beach and associated facilities – thereby freeing up the General Fund to pay for other infrastructure improvements in the Parks and Recreation Department.
3. Reduce the City's operating costs and free up funds for infrastructure financing by: "sun-setting" underutilized and outdated programs; initiating a "zero based" budgeting process at least once every four to five years, closing, or leasing, or selling any of the 500,000 square feet of General Fund facilities that are not needed; and disposing of any surplus property that might have utility value and generate income if sold or leased. (An example where the City does this successfully is the leasing of City-owned property at the airport providing a stream of revenue to help the airport be self-sufficient.)
4. Renew and update Resolutions No. 95-156 and No. 95-157, which have provided guidance to the City's financial policy for more than a decade, to reflect current economic realities.
5. Implement a Management Information Report to enable the City Council to track and review progress on; reducing the deferred maintenance backlog, progress on securing financing for unfunded capital needs, and maintaining Capital Reserves, as well as monitoring progress on other recommendations in this report.
6. Upgrade the City's capital infrastructure budgeting process by developing a budget report similar to the University of California Santa Barbara reporting system for State Capital Improvements.
7. Enforce existing panhandling ordinances and develop a program (similar to other successful cities) to overcome the City's growing gang problem – both of which are a threat to the civility of Santa Barbara and its viability as a destination resort, which is key to maintaining the revenues which support infrastructure.
8. Develop an ongoing program that will educate the public on the fundamental importance of a well-maintained and adequately funded infrastructure – and ensure support for these policies.
9. Develop a detailed implementation plan for these recommendations by January 20, 2009, and report back to the Council twice a year.

RESOLUTION NO. 95-156

**A RESOLUTION OF THE COUNCIL OF THE
CITY OF SANTA BARBARA ESTABLISHING
BUDGET POLICIES FOR THE GENERAL
FUND AND THE ENTERPRISE FUNDS**

WHEREAS, the City Council desires that the development and adoption of the annual budgets for the City's General Fund and the Enterprise Funds should be guided by sound budget principles; and

WHEREAS, staff historically has relied on sound budget principles in preparing the recommended Two Year Financial Plan and Annual Budget for the City; and

WHEREAS, such policies will be most readily communicated and understood if they are consolidated and formally adopted in a single document; and

WHEREAS, management staff from all departments have participated in discussions and development of proposed budget policies; and

WHEREAS, staff has presented and Council has reviewed the proposed policies in a Council Work session on October 17, 1995; and

WHEREAS, the Council has considered the proposed policies at a regular Council meeting on November 14, 1995;

NOW, THEREFORE BE IT RESOLVED, by the Council of the City of Santa Barbara that the following budget policies are adopted:

1. For the Two Year Financial Plan covering Fiscal Years 1997 and 1998, all current operating expenditures will be paid for with current revenues.
2. Budgetary emphasis will focus on providing high quality municipal services, recognizing the fundamental importance to the public of public safety and well maintained infrastructure.
3. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment.
4. The budget will reflect a higher priority for maintenance of existing facilities than for acquisition of new facilities.

5. Future maintenance needs for all new capital facilities will be fully costed out, and added costs will be recognized and included in future year budget projections.
6. Strong customer service and productivity improvements with a focus on cost savings remain important budgetary goals.
7. A diversified and stable revenue system will be maintained to shelter the City from short-run fluctuations in any single revenue source.
8. Revenues will be conservatively estimated, will be projected for the next four years and will be updated at least annually.
9. Intergovernmental assistance in the form of grants and loans will be used to finance only:
 - those capital improvements consistent with the Six-Year Capital Program priorities and which can be maintained and operated over time; and
 - operating programs which either can be sustained over time or have a limited horizon.
10. One-time revenues will be used for operating programs only after an examination determines whether they are subsidizing an imbalance between operating revenues and expenditures, and then only if a long-term forecast shows that the operating deficit will not continue. In general, one-time revenues will be used only to support capital or other non-recurring expenditures.
11. Budgetary strategies that fund current operations at the expense of future needs, such as postponing capital expenditures, will be avoided.
12. All fees and charges for each enterprise fund will be set at a level that fully supports the direct and indirect cost of the enterprise.
13. Annually, the City will seek the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Reporting and the GFOA Distinguished Budget Presentation Award.

RESOLUTION NO. 95-157

**A RESOLUTION OF THE COUNCIL OF
THE CITY OF SANTA BARBARA
ESTABLISHING POLICIES FOR RESERVES
FOR THE CITY'S GENERAL FUND AND
ENTERPRISE FUNDS**

WHEREAS, the City desires to establish policies regarding reserves for the various City funds for the purpose of providing consistent designations for different categories of reserves, ensuring fiscal security for the funds, defining standards for minimum and maximum amounts to be maintained in reserves, and providing flexibility to recognize differences among funds; and

WHEREAS, such reserves policies will be most readily communicated and understood if they are consolidated and formally adopted in a single document; and

WHEREAS, staff has presented and Council has reviewed the proposed reserves policies in a Council Work session on October 17, 1995; and

WHEREAS, the Council has considered the proposed reserves policies at a regular Council meeting on November 14, 1995;

NOW, THEREFORE BE IT RESOLVED, by the Council of the City of Santa Barbara that the following reserves policies are adopted:

1. In combination, the Reserves for Economic Contingency/Emergency and Reserves for Future Year Budgets/Fund Balance (by fund) will be funded to a goal level of 25% of the annual operating budget of the respective fund.

2. APPROPRIATED RESERVES

An Appropriated Reserve will be included in each operating fund's adopted budget to provide for unanticipated expenditures or to meet unexpected small increases in service delivery costs within the fiscal year. This reserve will be budgeted up to one-half of one percent of the operating budget and any unused portion will be returned to fund balance at the end of the fiscal year.

3. RESERVE FOR CAPITAL

Each operating fund will establish a Capital Reserve funded to at least 5% of the value of its capital assets. In the alternative, the amount may be established at an amount equal to the average of the adopted capital program budgets for the

previous three years. The goal for the General Fund Capital Reserve shall be set at least \$1 million. Appropriations from these reserves will be to fund major capital costs.

4. RESERVE FOR ECONOMIC CONTINGENCY/EMERGENCIES

For each operating fund there will a reserve equal to 15% of its annual operating budget for the purpose of coping with emergencies. It may take more than one year to meet the 15% goal if these emergency reserves do not presently meet the 15% goal.

5. RESERVE FOR FUTURE YEAR BUDGETS/FUND BALANCE

Each operating fund will establish and maintain a reserve equal to 10% of its annual operating budget for the purpose of providing for unique one-time costs and for maintenance of City services and permit orderly budget adjustments during periods of reductions. Appropriation of these reserves to operating budgets should, when feasible, be accompanied by a plan for replenishment within a reasonable period of time.

6. FUNDING OF RESERVES

Funding will come generally from one-time revenues, excess fund balance and projected revenues in excess of projected expenditures. They will generally be reserved in the following priority order:

- Reserve for Economic Contingency/Emergencies
- Reserve for Capital
- Reserve for Future Years Budgets

However, flexibility will be retained to allocate available funds among the reserves based on the current circumstances and needs of the City's various operating funds.

7. Appropriation or use of funds from any of these reserves will require Council action.