

City of Scotts Valley

Guiding Budget Principles for FY 2023/24 Annual Budget

City Council establishes a set of budget principles to guide current and future policy makers and staff to ensure the long-term financial sustainability of the City. The budget principles that are listed below were approved by the City Council on March 1, 2023 with Resolution No. 630.42.2 to guide the planning for the FY23/24 Annual Budget.

Budgeting Policies

1. Budget development will be guided by a long-term financial plan proposed by the City Manager and adopted by the City Council and should include considerations such as the cost of deferred maintenance and unfunded liabilities.
2. The budget must be balanced. Specifically, revenue must be equal to or greater than expenses. The total expenses of a department in the new fiscal year will be their expenses from the current fiscal year as modified by MOU changes and minor increases in services and supplies to the extent resources allow. All departments are expected to review their sources of revenue for correctness and validity. All departments are expected to evaluate the impact of uncertainties to revenues and adjust expenditures accordingly.
3. There will be no unfunded positions included in the budget or staffing resolution. Vacancy Review will be utilized to create budget flexibility in case of loss of revenue, and to ensure the need exists for filling positions. All positions will be reviewed. Any new positions will consider: new revenue for the position to cover the cost of the position and indirect and overhead costs; the need for the position to meet Council Goals; and a reasonable expectation that there will be an ongoing funding stream for any new position.
4. The 2023-24 budget will only use reserve funds for emergency and one-time expenditures or for purposes that the reserve is designated to fund. Every effort will be used to preserve reserve funds at designated levels.
5. The City Manager is authorized to approve administrative adjustments to the adopted budget or reallocate appropriations among departments or divisions within a fund, as long as those changes do not significantly impact policy or affect budgeted year-end fund balances. Any revisions that increase total appropriations in any given fund must be approved by the City Council.

Reserve Policies

6. General Fund reserves should be maintained at a minimum of 17% (or two months) of annual operating expenditures, with a target reserve goal of 30% (three

months) of annual operating expenditures, and in no event should be planned to fall below 10% in any year in the long-range forecast beyond the first year.

7. Funding assignments in the General Fund will be used to plan for current and future needs including pension contributions, facility planning, IT infrastructure, economic development activities, economic uncertainty, and general purpose. These assignments reflect the Council's Goals and intent to plan for future investments but are not restricted their assigned use and can be modified as needed to meet the City's needs.
8. Recreation Enterprise Fund reserves have no established minimum reserve, but are expected to be fully supported by the General Fund through fund transfers where necessary to the extent that recreation program revenues and facility rental charges are insufficient to cover operating costs.
9. Wastewater Operations Enterprise Fund should maintain a minimum of 50% (or six months) of annual operating expenditures to meet cash flow needs, plus a \$1 million emergency reserve for seismic/catastrophic events, both of which would be incorporated in the Wastewater rate model to plan for future wastewater service rates.

Ongoing Resources and Operations

10. Every effort will be made to restore the level of service provided pre-pandemic, understanding that this will require some departments and programs to reorganize, partner with contracted vendors, and/or invest in time-saving technology.
11. Ongoing expenditures should be supported by ongoing revenues.
12. The City will seek to avoid dependence on temporary or unstable revenues to fund mainstream municipal services where possible.
13. Charges for services should maximize recovery of the full cost of related services, including direct operating costs, and other indirect costs such as capital and overhead costs. Recreation services will seek to fully recover costs where possible.

Use of One-Time (Windfall) Resources

14. One-time revenues will not be used for ongoing expenditures on a continuous basis.
15. Unpredictable revenues, such as those derived from the sale of surplus land assets or inventory, will be treated as one-time revenue and will not be used to support ongoing expenses.
16. One-time resources may only be used to support one-time expenses such as capital investments or to replenish reserves.

Capital Projects

17. When capital projects are considered, all associated costs - including annual operating expenses, debt services, and any additional future costs - will be identified in order to properly assess future financial impacts.
18. Investment in technology will be continued.

Fiscal Sustainability Planning

19. To the extent that the long-range financial forecast indicates a structural gap between projected annual revenues and expenditures, the City will update its existing fiscal sustainability plan or develop and implement a new fiscal sustainability plan to ensure General Fund reserves stay within the reserve policies established by the City Council.
20. Any structural gap in a long-term financial forecast will be addressed in such a way that it is eliminated no later than the final year of the long-range financial forecast (not to exceed 10 years).
21. Service level reductions will be implemented if other strategies are not possible or cannot be achieved in a timely fashion.
22. There will be a high level of fiscal discipline by the Department Heads, Budget Subcommittee, City Manager and City Council. Every effort will be made to maximize City assets, achieve a high level of funding for employee retirement promises, evaluate cost per service item and develop and maintain contracts with vendors within Scotts Valley.

Debt Management

23. Debt will not be used to support ongoing operations.
24. Capital leases may be used as a mid-term borrowing arrangement for fleet, equipment, and technology uses to the extent that the imputed interest rate in any such capital lease is competitive with existing long-term borrowing rates, considers potential maintenance cost savings for assets under the capital lease, and that such costs are incorporated into the long-range financial forecast.
25. Long-term borrowing (three years or more) for capital facilities will be considered as an appropriate method of financial facilities that benefit more than one generation of users and to the extent that existing reserves or other one-time resources are not available.

Other Matters

26. The Wastewater Enterprise fund shall reflect the true cost of operation, including direct and indirect costs of services provided by the General Fund, and be self-reliant upon fees and/or use rates paid by ratepayers.
27. Private development of residential, commercial and/or industrial properties shall pay its fair share of capital improvements that are necessary to serve the development and should not be subsidized by public funds.
28. If the City contributes funds to Non-Profit or Community Partners for other than the purchase of services, it will give priority to one-time initiatives (as opposed to operational subsidies), and to those who demonstrate collaboration with other Community Partners. Funding will be adjusted based upon discretionary revenues available as with other City departments. Loans and advances will not be considered unless extraordinary events occur and must be secured.