











## CITY OF CHICO FY2019-20 ANNUAL BUDGET - BUDGET POLICIES

### A. INTRODUCTION

In its adoption of the Budget, the City Council recognizes that the appropriations approved for the operating and capital budgets are based upon estimates of municipal needs for the fiscal year. Therefore, in order to establish appropriate control in the administration of the Budget, the following policies are adopted to provide necessary authority for the City Manager to administer the Budget during the course of the fiscal year in the light of varying conditions which may occur.

These policies are in addition and supplemental to any provisions contained in the Charter of the City of Chico (the Charter), the Chico Municipal Code (Code), including the Personnel and Employee Representation Rules (PERRs), the Final Budget Resolution, all Memoranda of Understanding (MOU) with recognized employee organizations, all Pay and Benefit Resolutions regarding pay, benefits and other terms and conditions of employment relating to other officers and employees, the City of Chico Administrative Procedure and Policy (AP&P) Manual, and other documents relating to the Budget, as such provisions may apply to the administration of the Budget.

All references to the Administrative Services Director and/or Finance Director shall refer to that individual empowered as the Finance Director, as defined in the Chico City Charter.

### B. DEFINITIONS

#### B.1. Appropriations (Operating and Capital Budgets)

The term "**Appropriations**" means the amounts approved for expenditure by the City Council in its adoption of the Budget, together with subsequent "**Supplemental Appropriations**."

#### B.2. Budget Modification

The term "**Budget Modification**" means an adjustment to operating and capital project funding sources, pay schedules, job title allocations, changes in these Budget Policies, and other non-appropriation matters.

#### B.3. Supplemental Appropriation

The term "**Supplemental Appropriation**" means an increase and/or decrease in an existing appropriation(s) in the City Council Adopted Budget or a new appropriation(s).

#### B.4. Rebudget

The term "**Rebudget**" means the process of carrying over unspent appropriations or unrealized revenue from one fiscal year into a subsequent fiscal year. Pursuant to Budget Policy No. E.3., Rebudgets shall be documented in a Budget Modification.

## C. FISCAL CONTROL POLICIES

### C.1. Off-Cycle Funding Requests

Off-cycle funding requests represent items not contemplated during the normal budget production and approval process which may result in exceeding a department and/or category appropriation. In order to ensure that all budget requests are considered in the context of the entire budget, consideration of funding requests submitted outside the normal budget production process shall be subject to staff analysis to assist the City Council in evaluating the proposal. The formal analysis shall include, where applicable, the short- and long-term budget impact and the impacts on other Council approved priorities; identified source of funding and impact on fund balance; and any other pertinent financial implication relevant for City Council decision-making.

### C.2. Ongoing Non-Personnel Expenditures

Approval of all expenditures which would result in an ongoing fiscal commitment shall be funded only with increased revenues or other identified funding sources. One-time revenues, including fund balance and reserves, shall be used only for one-time costs, such as capital improvements.

### C.3. Statement of Fiscal Impact

All memoranda to the City Council which relate to issues expected to have a fiscal impact on the City shall include a statement of fiscal impact.

### C.4. Guiding Principles for Budget Development<sup>1</sup>

The following principles shall guide budget development:

- C.4.a. A balance between public safety, infrastructure maintenance, and quality of life services is required to ensure a livable community.
- C.4.b. A budget must be sustainable into the future, not balanced with one-time fixes, such as transfers of reserves or set-asides, and must reasonably reflect expenditures that match available revenues.
- C.4.c. Reducing funding for capital projects, or eliminating projects from the Capital Improvement Program, in order to support operating activities sacrifices the community's long-term interests.

<sup>1</sup>Adapted from: (1) "Budget Strategies for Challenging Fiscal Times" presented by Robert Leland, Director of Finance, City of Fairfield; (2) *Recommended Budget Practices* published by the National Advisory Council on State and Local Budgeting; (3) *A Budgeting Guide for Local Government* published by the International City/County Management Association; (4) *Model Practices for Municipal Governments* published by the Connecticut Town and City Management Association; (5) *Strategic Recruitment for Government, Ten Innovative Practices for Designing, Implementing, and Measuring Recruitment Initiatives in Government* published by the Performance Institute; and (6) City Council Resolution No. 135-07, "Resolution of the City Council of the City of Chico Supporting the City's Strategy in Strengthening the Economic Base of Chico," adopted December 4, 2007.

- C.4.d. Continuous investment in technology, systems and equipment is needed to improve organizational efficiency, especially when staffing levels are reduced.
- C.4.e. Reasonable compensation levels in line with the labor market for similar governmental agencies are desired in order to minimize staff turnover and maintain City productivity; however, compensation levels must stay within a range that the City can sustainably afford while still providing the full range of city services that citizens expect from their city government.
- C.4.f. Additional revenue sources, such as grants and development related income, should be sought to augment City resources after due consideration of the cost associated with accepting a grant or approving development.
- C.4.g. Program cost recovery should be maximized, including reasonable General Fund indirect costs allocated to other funds, to reduce the need for program reductions.
- C.4.h. Quality economic development and strengthening the City's economic base through implementation of the economic development strategy should be promoted to expand the City's revenue base and provide a net resource gain.
- C.4.i. Services and programs that serve a limited number of participants should be the focus of reductions, reformation, elimination, or reorganization, or should be considered for implementation by a private vendor or non-profit organization.
- C.4.j. Reductions should be avoided that could exacerbate liability issues for the City, or have long-term consequences that would be costly to reverse.
- C.4.k. The budget must ensure administrative accountability, internal controls and long-term financial stability.
- C.4.l. A balance of long-term liabilities and current operations is necessary to ensure the City avoids the growth in unrecognized or sudden significant liabilities.

## **D. FINANCIAL PLANNING AND IMPLEMENTATION POLICIES**

### **D.1. Balanced Budget and Deficit Reduction Plan**

The City shall establish a plan to structurally balance the City's budget.

#### Revenue Control

- D.1.a. The City will dedicate new ongoing revenue sources in the following manner and priority:
  - Priority 1: Fixed cost increases, such as built-in contract escalators, benefit increases outside City control including CalPERS pension contributions, etc.;



- Priority 2: Funding significant long-term liabilities, and replenishing General Fund and Emergency Reserve, Workers Compensation, General Liability, and Compensated Absences funds to established targets;
- Priority 3: Replenishing internal service funds, such as Vehicle Replacement, Building Maintenance, etc.;
- Priority 4: Discretionary expenditures and negotiable items.

D.1.b. The City will designate and assess fees for service and other fees in the following manner and in compliance with law. Fees will comply with all applicable laws.

- Category I – Fees that are determined to have a 100 percent cost recovery goal and shall be updated annually based on the total costs of providing the service;
- Category II – Fees that are below the 100 percent cost recovery goal. Fees are generally subsidized where collection of fees is not cost-effective; collection of fees would not comply with regulatory requirements; purpose of the fee is not to offset cost but to provide benefits to the recipients and the community. If fee is proposed to be Category II, the proposer will describe the reasoning and purpose why the fee is less than full cost recovery.
- Category III – Fees adjusted annually by a standardized escalator, such as the Consumer Price Index, etc.
- Category IV – Penalty and fine fees to the public. Fees in category IV should be reviewed annually relative to the reasonableness for the fee and the fiscal effect as it relates to deterrence.

D.1.c. One-time revenues and budgetary costs savings not anticipated during the fiscal year will be primarily dedicated to funding significant long-term liabilities and replenishing reserve and internal service funds to established targets.

D.1.d. All revenue receipts shall be processed through the Finance Division. In the case revenue receipts are offset by any non-cash transaction or discounts, Administrative Services Director's review and approval will be required.

D.1.e. Any commitment by the City to perform or pay for services which will be reimbursed by another entity will be documented in either a written agreement prior to proceeding with the services or provided for in an approved fee schedule and approved by the City Manager, and if over \$50,000, the City Council. Subsequent to approval, the City Manager may appropriate funds reimbursing City operations up to \$50,000 per each individual service (e.g., Revenue reimbursed by the State Office of Emergency Services (OES) may be appropriated to Department 410 – Fire Reimbursable Response up to the amount reimbursed without previous Council action). All amounts appropriated under this provision will be reported to Council via budget modification reports.

### Expenditure Control

D.1.f. Expenditure controls safeguard limited government assets and ensure resources are maintained where they were originally approved during the budget process. To this end, while Budget Policy E.1 provides City Manager control over fund-level expenditures, tighter controls and authorizations are required to maximize safeguards over the use of

funds. Operating and Capital expenditures will require the following approvals and processes:

- D.1.f.(1) **Changes between Personnel and Non-Personnel Expenditures** – Transfers of appropriations between personnel and non-personnel categories requires approval of the Administrative Services Director, City Manager, and City Council.
- D.1.f.(2) **Changes between Departments** – Expenditures will be appropriated at the Department level. Appropriation transfers between departments requires approval of the Administrative Services Director, City Manager, and/or City Council based the following authorization amounts:
- Under \$10,000 – Administrative Services Director;
  - \$10,000 to \$50,000 – Administrative Services Director and City Manager;
  - Over \$50,000 – Administrative Services Director, City Manager, and City Council.
  - Exceptions: In the case of emergency, to prevent the loss of capital/grant funds, and/or other circumstance where delay would have a material negative impact to the City, the Administrative Services Director and City Manager can approve appropriation transfers.
- D.1.f.(3) **Changes between Expenditure Categories** – Expenditures will be appropriated at the Category level. Within each category exist object code line items. Departments can expend within the category as necessary without requiring further action. Appropriation transfers between categories requires approval of the Department Director, Administrative Services Director, and/or City Manager based the following authorization amounts:
- Under \$25,000 – Administrative Services Director;
  - \$25,000 to \$50,000 – Administrative Services Director and City Manager;
  - Over \$50,000 – Administrative Services Director, City Manager, and City Council.
  - Exceptions: In the case of emergency, to prevent the loss of capital/grant funds, and/or other circumstance where delay would have a material negative impact to the City. Administrative Services Director and City Manager approval is required.
  - Not Applicable: Non-discretionary items such as allocations, technology, fuel and utilities are not available for transfer.
- D.1.f.(4) **Fiscal Year-End Adjustments** – In order to expedite closing the accounting records at June 30<sup>th</sup> of each year, the City Manager is authorized to transfer an amount not to exceed \$1,000 between Departments within a single Fund in order to appropriate amounts to cover insignificant overages. A subsequent report will be made to Council listing total appropriations made within a Fund at fiscal year-end. This provision is only applicable to fiscal year-end adjustments and shall not be used at any other time.
- D.1.f.(5) **Prepaid Expenses** – In limited instances, some City costs are required to be paid prior to receiving the service or product. Examples include annual licensing fees, annual memberships, insurance policies and software maintenance agreements. Many of the













































































- I.5.d.(5).(b). A monthly reimbursement not to exceed \$75 which is not taxable income and not subject to payroll taxes. Expense reimbursement claims shall be processed in accordance with procedures established by the Administrative Services Director and approved by the City Manager.
- I.5.d.(5).(c). In either case, individuals receiving a stipend or reimbursement must provide their cellular telephone number to Human Resources staff and maintain updated information.

I.6. **Employee Crisis Counseling**

Funding has been appropriated in the Human Resources Department Operating Budget (Account No. 001-130-6703) to fund an Employee Crisis Counseling Program for City officers/employees in need of such assistance. Program procedures shall be as set forth in an appropriate AP&P. The City Manager is authorized to exceed this appropriation during the course of a fiscal year upon finding that circumstances and conditions relating to one or several employees requiring counseling assistance so warrant.

I.7. **Grant-Funded Positions Annual Report**

A status report of all grant-funded positions is reflected in Appendix B. Such report specifically lists each position, the term of the grant funding, the City's share of employment costs, if any, and any other information which would assist the City Council in determining whether the position should be re-authorized upon termination of the grant.

## **J. CONTINUING AND LONG-RANGE COUNCIL POLICY DECISIONS**

Set forth below are a series of continuing and long-range Policy Decisions which have been approved by the Council. These Policies are incorporated within these Budget Policies in connection with the Council's review of this Budget.

J.1. **CDBG Program Eligible Neighborhood Improvement Program**

Continue to utilize Community Development Block Grant Program (CDBG) funds for public improvements in neighborhoods that meet the income eligibility requirements as defined by the Department of Housing and Urban Development. Projects will be selected by Council on an annual basis as part of the Annual Plan process for CDBG based on project priorities established through the Capital Improvement Program.

J.2. **Contracting for Services**

Where feasible and cost effective, contract with private enterprise for City materials, supplies, and services requirements. Pursuant to the provisions of Section 3.08.060 C. of the Chico Municipal Code, utilize public and/or private nonprofit California corporations operating workshops serving the handicapped for the foregoing whenever possible. Prior to

awarding a bid for a service proposed to be contracted, notify the City Council of the proposed award.

J.3. **Development Fees**

Establish appropriate development fees to fund new or expanded public facilities improvements which are required because of new development.

J.4. **Fair Trade Products**

Support fair trade and commit to serving certified fair trade products when purchasing food and beverages whenever such products are available and comparably priced to non-certified products.

J.5. **Fees and Charges**

Utilize fees and charges to support operating services and programs of special benefit to users which are not of a general benefit to residents and taxpayers.

J.6. **Fines**

In consultation with the Court of appropriate jurisdiction, review the various fines imposed for violations of Chico Municipal Code provisions to assure that they provide an effective enforcement tool, as well as generate sufficient revenue to cover present and projected citation processing and enforcement costs.

J.7. **Sustainability**

J.7.a. **City Facilities**

Green building standards and techniques shall be incorporated into the construction of any new or substantially renovated or remodeled City facility if determined to be feasible following an analysis which considers such factors as energy efficiency and the rate of return on the investment over the life and operation of the facility.

J.7.b. **Vehicles**

When appropriate, purchase hybrid or other alternative fueled vehicles as new vehicles are required and retrofit existing vehicles to alternative fueled vehicles as feasible.

J.7.c. **Single Serving Water Bottles**

Except in cases where potable water is not easily available, where there are no reasonable alternatives to access safe drinking water, and where a lack of potable water poses health or safety concerns for City employees, the use of City funds to purchase single serving plastic water bottles is prohibited. Such prohibition shall apply to City-funded or sponsored events.

## K. RESPONDING TO A FINANCIAL EMERGENCY

### K.1. **Introduction**

Due to economic downturns, unexpected changes in governing laws, or other reasons, the City may face a sharp decline in its revenues or material increase in expenditures, resulting in significant challenges in balancing the budget. Regardless of the cause, the City can be better prepared to respond to a financial emergency by establishing guidelines on how to respond via this policy document. This policy provides a framework for the City Council to define and declare a Financial Emergency.

### K.2. **Definition of a Financial Emergency**

This section defines a “financial emergency” in order to provide clarity as to when this policy should be invoked. A financial emergency occurs when:

- Revenues are less than budgeted such that the City’s budget is no longer structurally balanced or the City is no longer able to pay for its recurring expenditures with its recurring revenues;
- Revenues in the current year are expected to decrease significantly from the current year City Council approved budget;
- Annual Emergency Reserve Fund contributions are not able to be made due to the financial emergency;
- The City has limited ability to reduce expenditures in the amount required to structurally balance the budget;
- An unanticipated major expense, including repair costs, remediation costs or litigation expenses are incurred that were not previously budgeted;
- Inability to meet scheduled debt payments;
- Cash flow has been impaired;
- Any other circumstances the City Manager may deem to be considered a financial emergency.

### K.3. **Steps to Take in Response to a Financial Emergency**

- A. **Recognize that a financial emergency exists.** A financial emergency may be declared by approval of the City Council based upon recommendation by the City Manager.
- B. **Designate responsibility for managing the emergency.** The City Manager shall appoint a Financial Emergency Management Team (FEMT) of City staff to help manage the emergency, consisting of subject matter experts in the areas of finance, human resources, and operations/programs.
- C. **Financial emergency management plan.** The City Manager and the FEMT shall develop a financial emergency management plan. The plan should diagnose the cause(s) of the City’s financial distress and identify strategies to get through the

current emergency, while also preserving the long-term capabilities of the City. The City Manager will provide information regarding the plan to City Council.

- D. **New Revenue Sources.** This policy authorizes the City Manager to investigate and report to City Council proposed new or enhanced revenue sources including, but not limited to: fee increases, tax increase proposals, grant revenues and other revenues from private, state and federal funding sources.
- E. **Asset liquidations.** Review of City owned assets and possible liquidation of those assets to provide resources to fund City operations.
- F. **Authorize retrenchment tactics.** This policy authorizes the City Manager to place an immediate freeze on employment hiring and non-critical operational purchases and to employ other retrenchment tactics once a financial emergency has been declared. These tactics include, but are not limited to, the following:
  - 1. Analyze current budget for operating cost reductions at departmental levels;
  - 2. Freeze “pay as you go” construction projects;
  - 3. Analyze current contracts for services, supplies and construction and consider renegotiation with vendors for reduced contract amounts and discounts or extended payment terms;
  - 4. Limit overtime for employees;
  - 5. Analyze and consider the financial ramifications of alternate work schedule(s) for full-time employees (i.e. four ten-hour per day work weeks);
  - 6. Analyze and consider the financial ramifications of an employee furlough program;
  - 7. Analyze and consider the financial ramifications of employee compensation reductions and/or employee layoffs;
  - 8. Analyze and consider opportunities to out-source City services to outside contractors;
  - 9. Analyze any and all options for mitigating the financial emergency.
- G. **Short term financing.** Although financing of any type should be minimalized during a financial emergency, cash flow issues may require short term financing like a line of credit. All financing options may be considered and must be in compliance with the Debt Policy of the City and should not place an undue burden for repayment upon the City in future periods.
- H. **Direct monitoring of spending and revenues.** The City Manager and the FEMT shall develop tools to closely monitor and report on revenues and expenditures monthly. The City Manager and the FEMT shall also develop systems of accountability for staff that manage budgets and for achieving service objectives.
- I. **End of the financial emergency.** Once the financial emergency is over (the criteria described in Section K.2 of this policy are no longer met), the City Council upon recommendation by the City Manager may declare an end to the financial emergency and the directives described in this policy will no longer apply.