

Fiscal Policies

Section 1. GENERAL REVENUE MANAGEMENT

- A. **Diversified and Stable Base.** The City will seek to maintain a diversified and stable revenue base to protect it from short-term fluctuations in any one revenue source.
- B. **Long-Range Focus.** To emphasize and facilitate long-range financial planning, the City will maintain current projections of revenues for the succeeding five years.
- C. **Current Revenues for Current Uses.** The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- D. **Interfund Transfers and Loans.** In order to achieve important public policy goals, 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.

Any transfers between funds for operating purposes are clearly set forth in the Financial Plan, and can only be made by the Finance Director in accordance with the adopted budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year.

In summary, interfund transfers result in a change in fund equity; interfund borrowings do not, as the intent is to repay the loan in the near term.

From time to time, interfund borrowings may be appropriate; however, these are subject to the following criteria in ensuring that the fiduciary purpose of the fund is met:

1. The Finance Director is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 45 days. The most common use of interfund borrowing under this circumstance is for grant programs like the Community Development Block Grant, where costs are incurred before drawdowns are initiated and received. However, receipt of funds is typically received shortly after the request for funds has been made.
2. Any other interfund borrowings for cash flow or other purposes require case-by-case approval by the Council.
3. Any transfers between funds where reimbursement is not expected within one fiscal year shall not be recorded as interfund borrowings; they shall be recorded as interfund operating transfers that affect equity by moving financial resources from one fund to another.

Section 2. USER FEE COST RECOVERY GOALS

A. Ongoing Review

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every ~~five~~three years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index. Fees may be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery.

B. User Fee Cost Recovery Levels

In setting user fees and cost recovery levels, the following factors will be considered:

1. **Community-Wide Versus Special Benefit.** The level of user fee cost recovery should consider the community-wide versus special service nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
2. **Service Recipient Versus Service Driver.** After considering community-wide versus special benefit of the service, the concept of service recipient versus service driver should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the driver of development review costs, and as such, cost recovery from the applicant is appropriate.
3. **Effect of Pricing on the Demand for Services.** The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly-stimulated by artificially low prices.

Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low-income groups.

4. **Feasibility of Collection and Recovery.** Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.

C. Factors Favoring Low Cost Recovery Levels

Very low-cost recovery levels are appropriate under the following circumstances:

1. There is no intended relationship between the amount paid and the benefit received. Almost all "social service" programs fall into this category as it is expected that one group will subsidize another.
2. Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
3. There is no intent to limit the use of (or entitlement to) the service. Again, most "social service" programs fit into this category as well as many public safety (police and fire) emergency response services- and the ability to appeal planning decisions. Historically, access to neighborhood and community parks would also fit into this category.
4. The service is non-recurring, generally delivered on a "peak demand" or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services also fall into this category.
5. Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might fall into this category.

D. Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

1. The service is similar to services provided through the private sector.
2. Other private or public sector alternatives could or do exist for the delivery of the service.
3. For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
4. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
5. The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.

E. General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges:

1. Revenues should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs and organization-wide support costs such as accounting, personnel, information technology, legal services, fleet maintenance and insurance.

3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
5. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

F. **Low Cost-Recovery Services**

Based on the criteria discussed above, the following types of services should have very low-cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for the operation as a whole should be general-purpose revenues, not user fees.

1. Delivering public safety emergency response services such as police patrol services and fire suppression.
2. Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.
3. Providing social service programs and economic development activities.

4. **Appealing planning decisions. Appeal fees are charged based on a tiered system and fees for all tiers should be at 15% cost recovery for both applicants and non-applicants, based on the cost of responding to appeals initiated by the applicant.**

G. **Recreation Programs**

The following cost recovery policies apply to the City's recreation programs:

1. Cost recovery for activities directed to adults should be relatively high.
2. Cost recovery for activities directed to youth and seniors should be relatively low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.

Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high-levels of participation in youth and senior recreation activities regardless of financial status.

3. **Fees for golf activities should be comparable to other communities.**

3.4. Cost recovery goals for recreation activities are set as follows:

High-Range Cost Recovery Activities - (60% to 100%)

- a. Adult athletics
- b. Banner permit applications
- c. Major commercial film permit applications
- ~~e. Child care services~~
- ~~d. Facility rentals (indoor and outdoor; excludes use of facilities for internal City uses)~~

Mid-Range Cost Recovery Activities - (30% to 60%)

- ~~e.d.~~ Triathlon
- ~~f.~~ Golf
- ~~g.e.~~ Summer and Spring Break Camps
- f. Junior Ranger camp
- g. Child care services
- ~~h.~~ Classes
- ~~i.h.~~ Major commercial film permit applications

Low-Range Cost Recovery Activities- (0 to 30%)

- j.i. Aquatics
- ~~k.j.~~ Community gardens
- ~~l.~~ Junior Ranger camp
- ~~m.k.~~ Minor commercial film permit applications
- ~~n.l.~~ Skate park
- ~~o.m.~~ Parks and Recreation sponsored events (except for Triathlon)
- ~~p.n.~~ Youth sports
- ~~q.o.~~ Teen services
- ~~r.p.~~ Senior/~~boomer~~ services

4.5. For cost recovery activities of less than 100%, there should be a differential in rates between residents and non-residents. However, the Director of Parks and Recreation is authorized to reduce or eliminate non-resident fee differentials when it can be demonstrated that:

- a. The fee is reducing attendance.
- b. ~~And there~~There are no appreciable expenditure savings from the reduced attendance.

5.6. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special-use areas, and recreation equipment for activities not sponsored or co-sponsored by the City. Such charges ~~will generally conform to the fee guidelines described above~~should be based upon comparability with other communities. However, the Director of Parks and Recreation is authorized to charge fees that are closer to full cost recovery for facilities that are heavily used at peak times and include a majority of non-resident users.

~~6-7.~~ A vendor charge of at least 10 percent of gross income will be assessed from individuals or organizations using City facilities for moneymaking activities.

~~7-8.~~ The Director of Parks and Recreation is authorized to offer reduced fees such as introductory rates, family discounts and coupon discounts on a pilot basis (not to exceed 18 months) to promote new recreation programs or ~~resurrect~~revive existing ones.

~~8-9.~~ The Parks and Recreation Department will consider waiving fees only when the City Manager determines in writing that an undue hardship exists.

H. **Development Review Programs**

The following cost recovery policies apply to the development review programs:

1. Services provided under this category include:
 - a. Planning (planned development permits, tentative tract and parcel maps, re-zonings, general plan amendments, variances, use permits).
 - b. Building and safety (building permits, structural plan checks, inspections).
 - c. Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments).
 - d. Fire plan check.
2. Cost recovery for these services should generally be very high. In most instances, the City's cost recovery goal should be 100%.
3. However, in charging high cost recovery levels, the City needs to clearly establish and articulate standards for its performance in reviewing developer applications to ensure that there is "value for cost."
4. Building Permit Plan Check Services – The City of San Luis Obispo offers building permit plan check services through consultants at a set price, not to exceed 65% of the City's fee for the service. Building Permit Plan Check Services are offered by the City on a 100% cost-recovery basis, and the service is provided after the fee is paid in full. As a result, the Finance Director is authorized to make appropriations from the related revenue account to cover the cost of the services provided.

I. **Services Supporting Sustainability Goals of the City**

Fees for services that support the sustainability goals of the City should be set at 50% cost recovery. These include:

1. Building permits for:
 - a. Electric Car Charging System
 - b. Graywater System

- c. Graywater/Rainwater Harvesting System
- d. Heat Pump
- e. Insulation/Energy Update
- f. Photovoltaic Systems
- g. Photovoltaic Unit Installation – Residential
- h. Residential Photovoltaic System
- i. Solar/PV System - Commercial BLDG
- j. Solar/PV System – Multifamily BLDG
- k. Solar Water System Fixtures - BLDG
- l. Doors/Windows
- m. Electric Service Upgrades
- n. New/Altered Circuits
- o. Window Retrofit

2. Pedicab Fee and Pedicab Renewal Fee

J. Concealed Carry Weapon Permit fee

The Concealed Carry Weapon Permit fee should be based upon comparability with other communities.

L-K. Comparability with Other Communities

In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

1. Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for several reasons:
 - a. They reflect the "market" for these fees and can assist in assessing the reasonableness of San Luis Obispo's fees.
 - b. If prudently analyzed, they can serve as a benchmark for how cost-effectively San Luis Obispo provides its services.
2. However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:
 - a. What level of cost recovery is their fee intended to achieve compared with our cost recovery objectives?
 - b. What costs have been considered in computing the fees?
 - c. When was the last time that their fees were comprehensively evaluated?
 - d. What level of service do they provide compared with our service or performance standards?
 - e. Is their rate structure significantly different than ours and what is it intended to achieve?

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3. These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of our fees to other communities should be one factor among many that is considered in setting City fees.

Section 3. ENTERPRISE FUND FEES AND RATES

- A. **Water, Sewer, and Parking.** The City will set fees and rates at levels which fully cover the total direct and indirect costs—including operations, capital outlay, and debt service—of the following enterprise programs: water, sewer, and parking. For ~~Water~~water and ~~Sewer~~sewer, the rate setting process will be in accordance with Proposition 218 and its notification requirements.
- B. **Transit.** Based on targets set under the Transportation Development Act, the City will strive to cover at least twenty percent of transit operating costs with fare revenues.
- C. **Ongoing Rate Review.** The City will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate and equitable.
- D. **Cost of Service Fees.** The City will treat the water and sewer funds in the same manner as if they were privately owned and operated. This means assessing reasonable cost of service fees in fully recovering service costs.

The purpose of the cost of service fee is reasonable cost recovery for the use of the City's services such as street rights-of-way and public safety. The appropriateness of charging the water and sewer fund a reasonable cost of service fee for the use of the City streets is further supported by the results of studies from Arizona, California, Ohio, and Vermont which concluded that the leading cause of street resurfacing and reconstruction is street cuts and trenching for Utilities.

Section 4. REVENUE DISTRIBUTION

The Council recognizes that generally accepted accounting principles for state and local governments discourage the “earmarking” of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City's management of its fiscal affairs. Approval of the following revenue distribution policies does not prevent the Council from directing General Fund resources to other functions and programs as necessary.

- A. **Property Taxes.** With the passage of Proposition 13 on June 6, 1978, California cities no longer can set their own property tax rates. In addition to limiting annual increases in market value, placing a ceiling on voter-approved indebtedness, and redefining assessed valuations, Proposition 13 established a maximum county-wide levy for general revenue purposes of 1% of market value. Under subsequent state legislation, which adopted formulas for the distribution of this countywide levy, the City now receives a percentage of total property tax revenues collected countywide as determined by the State and administered by the County Auditor-Controller. The City receives 14.9% of each dollar collected in property tax after allocations to school districts.

Accordingly, while property revenues are often thought of as local revenue sources, in essence they are State revenue sources, since the State controls their use and allocation.

With the adoption of a Charter revision in November 1996, which removed provisions that were in conflict with Proposition 13 relating to the setting of property tax revenues between various funds, all property tax revenues are now accounted for in the General Fund.

- B. **Gasoline Tax Subventions.** All gasoline tax revenues (which are restricted by the State for street-related purposes) will be used for maintenance activities. Since the City's total expenditures for gas tax eligible programs and projects are much greater than this revenue source, operating transfers will be made from the gas tax fund to the General Fund for this purpose. This approach significantly reduces the accounting efforts required to meet State reporting requirements.
- C. **Transportation Development Act (TDA) Revenues.** All TDA revenues will be allocated to alternative transportation programs, including regional and municipal transit systems, bikeway improvements, and other programs or projects designed to reduce automobile usage. Because TDA revenues will not be allocated for street purposes, it is expected that alternative transportation programs (in conjunction with other state or federal grants for this purpose) will be self-supporting from TDA revenues.
- D. **Parking Fines.** All parking fine revenues will be allocated to the ~~parking fund~~ Parking Fund, except for those collected by Police staff (who are funded by the General Fund) in implementing neighborhood wellness programs.

Section 5. INVESTMENTS

[Link to the City's Investment Policy & Management Plan:](#)

POLICY STATEMENT

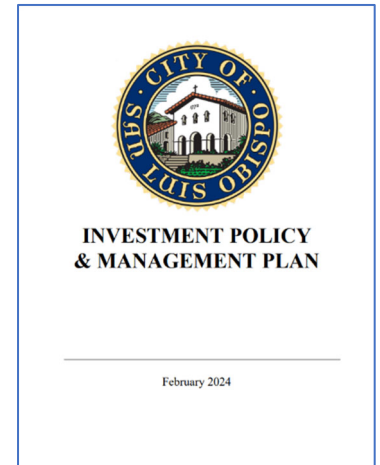
The City of San Luis Obispo shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Investment Policy & Management Plan in priority order of Safety, Liquidity, and Return on Investment.

The purpose of the Investment Policy and Management Plan is to establish policies, practices, and procedures to be used in administering the City's investment portfolio in accordance with the City's Statement of Investment policy.

PRIMARY INVESTMENT OBJECTIVE

The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

In determining individual investment placements, the following factors shall be considered in priority order: 1) Safety 2) Liquidity 3) Yield – (Return on Investment~~,-~~). The City will also take into account Environmental, Social, and Governance (ESG) objectives, the City's Socially Responsible Investment Policy, and other qualitative considerations as directed by Council and required by the Investment Policy & Management Plan.



Section 6. APPROPRIATIONS LIMITATION

- A. The Council will annually adopt a resolution establishing the City's appropriations limit calculated in accordance with Article XIII-B of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter approved amendments or state legislation that affect the City's appropriations limit.
- B. The supporting documentation used in calculating the City's appropriations limit and projected appropriations subject to the limit will be available for public and Council review at least 10 days before Council consideration of a resolution to adopt an appropriations limit. The Council will generally consider this resolution in connection with final approval of the budget.
- C. The City will strive to develop revenue sources, both new and existing, which are considered non-tax proceeds in calculating its appropriations subject to limitation.
- D. The City will annually review user fees and charges and report to the Council the amount of program subsidy, if any, that is being provided by the General or Enterprise Funds.
- E. The City will actively support legislation or initiatives sponsored or approved by League of California Cities which would modify Article XIII-B of the Constitution in a manner which would allow the City to retain projected tax revenues resulting from growth in the local economy for use as determined by the Council.
- F. The City will seek voter approval to amend its appropriation limit at such time that tax proceeds are in excess of allowable limits.

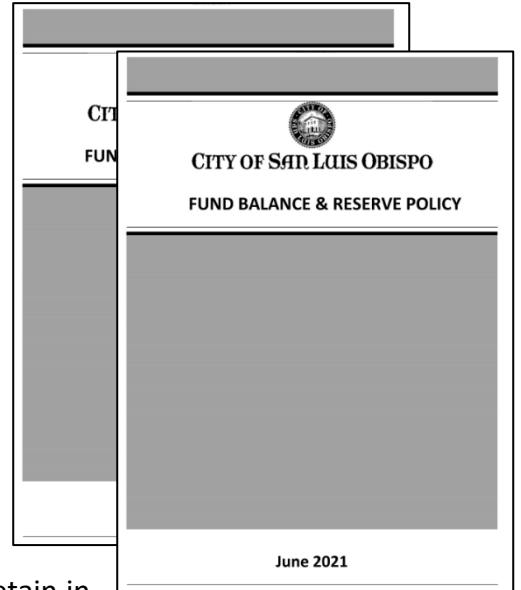
Section 7. FUND BALANCE AND RESERVES

[Link to the City's Fund Balance & Reserve Policy](#)

This policy establishes guidelines and procedures for allocating and reporting the City's fund balances in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 and as committed by the City Council effective beginning fiscal year ending June 30, 2021.

Additionally, the policy establishes the City's reserve levels to address protection from risk and unexpected situation that require financial resources. The City of San Luis Obispo faces risks such as revenue shortfalls during recessions and losses from extreme events, like earthquakes, wildland fires, flooding, and other natural disasters. Prudent reserve levels help make sure that the City of San Luis Obispo can respond quickly and decisively to those events. Reserves also support vital public services during revenue declines. As such, the City's reserve policy describes how much the City will retain in the reserves and stipulates activation and acceptable uses of the reserves.

Since reserve levels need to be considered when establishing fund balances, both are addressed within this policy.



Section 8. CalPERS & UNFUNDED LIABILITIES

With the 2018-19 Financial Plan Supplement, the City adopted its Fiscal Health Response Plan (FHRP); a three-year plan to address the City's escalating unfunded pension liability stemming from the CalPERS' changes under the Public Employees' Pension Reform Act (~~PEBRA~~, ~~PEBRA~~, ~~PEBRA~~). PEBRA prescribe that a member agency's pension liability had to be paid down over a 30-year period which triggered annually escalating contributions through 2045.

The FHRP therefore targeted a realignment of revenues and expenditures to allow for additional payments to CalPERS, negotiated additional contributions toward pension payments for employee groups, and prioritized the use of unassigned fund balance once the City's Financial Statements had been audited and accepted by the City Council. The goal of this realignment was the payment of the unfunded liability (UFL) over a reduced timeline therefore securing pensions for City employees and saving the City considerable interest payments.

Given the long-term ramifications of the deliverables put in motion through the FHRP, this section addresses the City's long-term commitment to payment of the UFL, annual additional discretionary payments (ADPs), and the needed prioritization to hold the shortened timeline.

1. The City sets the following prioritization of unassigned General Fund balance:
 - a. Additional discretionary payments to CalPERS
 - b. Infrastructure investments
 - ~~b.c. Emerging Health and Safety needs of the community~~
 - ~~c.a. Infrastructure investments~~
2. The City commits to ADPs to CalPERS and adding an annual inflator equal to increases in payroll whenever CalPERS reaches its discount rate or larger rates of return based on ~~FY2022-23 assumptions as follows:~~ what is presented in the latest five-year forecast.
 - ~~a. \$2 million from the General Fund~~
 - ~~b. \$400,000 from the City's Enterprise Funds~~
3. Whenever CalPERS does not reach its adopted discount rate, the City commits to first use any unassigned fund balance to counteract the investment loss CalPERS experienced. It will add the loss to the committed ADP as outlined above to safeguard the investment already made toward the early repayment of the UFL.

Section 9. CAPITAL IMPROVEMENT PROGRAM MANAGEMENT

- A. **CIP Projects: \$25,000 or More.** Construction projects which cost \$25,000 or more will be included in the CIP and are accounted for in the the Capital Outlay Fund. Minor capital outlays of less than \$25,000 will be included with the operating program budgets.
- B. **CIP Purpose.** 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. The CIP is a five-year plan organized intoby the same functional groupings used for categories as the City's operating programs. The CIP ~~will reflect~~reflects a balance between capital replacement projects —those that repair, replace, or enhance existing facilities, equipment or infrastructure; ~~and~~ with capital facility projects that significantly expand or add to the City's existing fixed assets.
- C. **CIP Project Type.** Projects are categorized by type, including:
1. Asset Maintenance – Reoccurring and annual needs that maintain existing assets.
 2. Asset Replacement – Periodically reoccurring and/or annual needs that replace existing assets with similar assets.
 3. New Asset – Periodic needs to expand the number of assets that serve the community.

Asset maintenance projects and costs should be considered before recommending funding for projects to replace existing assets or construct new assets. Asset Maintenance projects are not ranked by the CIP Review Committee.

- D. **CIP Project, Project Manager.** Every CIP project will have a “project manager” who will be responsible for managing the project scope, budget, and timeline. Project managers will be responsible for ensuring that ~~required~~ phases are completed on schedule, authorizing ~~all~~ project expenditures, ~~ensuring~~ that all regulations and laws are observed, regularly communicating with project proponents and other stakeholders, and reporting on project status. Project management will primarily be performed by staff in the Public Works Department, but staff from other departments may also manage projects.
- E. **CIP Review Committee.** The CIP Review Committee provides governance of the CIP by evaluating and prioritizing capital projects based upon an established set of criteria to ensure alignment with Major City Goals, the General Plan, strategic growth objectives and needs for services provided within the City. The Assistant City Manager serves as Chair of the Committee and the Director of Public Works is Vice Chair; other members include: Deputy City Manager, Director of Community Development, Director of Finance, Director of Parks and Recreation, Director of Utilities, and a public safety department head (rotating between the Fire Chief and Police Chief). The CIP Administrative Manager, City Engineer ~~and~~, Principal Budget Analyst, DEI Manager, and Sustainability Manager provide staff support to the Committee. The Committee is responsible for:
1. Assessing the City's fiscal and staff capacity to deliver projects so that the recommended CIP represents what can realistically be accomplished; and

2. Recommending to the City Manager the projects and associated budgets that should be included in the biennial financial plan; and
3. Considering requests for new projects that may be requested outside of financial plan development to address emergent needs; and
4. Evaluating the re-prioritization of projects as needs and conditions change in order to ensure consistency with project evaluation criteria, ability to deliver projects, and City priorities.

F. **Project Request Forms.** The CIP Review Committee requires that departments submitting a request for an Asset Replacement or New Asset project to be funded in the Five-Year CIP cycle submit a Project Request Form (PRF) to formally document the project request. The PRF is intended to ensure that the Committee has necessary information to evaluate and prioritize projects for funding. In addition to completion of the PRF, the Committee may also request a presentation from the requesting department to gather additional information. The content of the PRF shall include, but not be limited to the following:

1. Proposed project title
2. Proponent (Client) department
3. Proposed managing department or division
4. Project function (Major City Goal Alignment)
5. Project type
6. City priority alignment
7. Project scope
 - i. Purpose and Need (including approved planning documents or mandates)
 - ii. Consistency with Climate Action Plan
 - iii. Consistency with DEI
 - iv. Impact to Operations
8. Proposed project schedule/delivery
9. Estimated project budget and funding source(s) ~~(if any)~~

G. **Creation of Projects.** New projects shall only be considered during development of the biennial financial plan. ~~Requests~~ Staff requests for projects outside of the financial plan development process will be considered only if they are intended to address an emergency need. Staff may create new projects as directed by the City Council at any point.

H. **CIP Phases.** The CIP will emphasize project planning, with projects progressing through at least two and up to ten of the following phases:

1. **Designate.** Appropriates funds based on projects designated for funding by the Council through adoption of the Financial Plan.
2. **Study.** Concept, site selection, feasibility analysis, schematic design, environmental determination, property appraisals, scheduling, grant application, grant approval, specification preparation for equipment purchases.
3. **Environmental Review.** EIR preparation, other environmental studies.

4. **Real Property Acquisitions.** Property acquisition for projects, if necessary.

~~5. **Site Preparation.** Demolition, hazardous materials abatements, other pre-construction work.~~

~~6-5. **Design.** Final design, plan and specification preparation and construction cost estimation.~~

~~7-6. **Construction.** Construction contracts.~~

~~8-7. **Construction Management, and Special Inspections.** Contract project management and inspection, soils and material tests, other support services during construction.~~

~~9-8. **Equipment Acquisitions.** —Vehicles, heavy machinery, computers, office furnishings, other equipment items acquired and installed independently from construction contracts.~~

~~10-9. **Debt Service.** —Installment payments of principal and interest for completed projects funded through debt financings. Expenditures for this project phase are included in the Debt Service section of the Financial Plan. Generally, it will become more difficult for a project to move from one phase to the next. As such, more projects will be studied than will be designed, and more projects will be designed than will be constructed or purchased during the term of the CIP.~~

~~I. **CIP Appropriation.** —The City’s annual CIP appropriation for study, design, acquisition and/or construction is based on the projects designated by the Council through adoption of the Financial Plan. Adoption Upon adoption of the Financial Plan CIP appropriation does not automatically authorize funding for specific project phases. This authorization generally occurs only after, the preceding project phase has been completed and Capital Improvement Program (CIP) is concurrently approved by the Council and costs for the succeeding phases have been fully developed.~~

~~I. Accordingly, project, authorizing appropriations for projects with allocated funding in the designated fiscal year. Appropriations are generally made when contracts processed at the start of the fiscal year, ensuring that funds are awarded. available in the project account within the City’s financial management system.~~

If project costs at the time of bid award are less than the budgeted amount, the balance will be ~~unappropriated and returned~~ reappropriated to fund balance ~~the CIP reserve,~~ or be allocated to another project. If project costs at the time of bid award are greater than budget amounts, five basic options are available:

1. Eliminate the project.
2. Defer the project for consideration to the next Financial Plan period.
3. Rescope or change the phasing of the project to meet the existing budget.
4. Transfer funding from another specified, lower priority project.
5. Appropriate additional resources as necessary from fund balance.

~~J. **Cost of CIP Program Management and Project Delivery.** —The Capital budget shall reflect the projected cost of staff time within the Public Works Department spent on management of the CIP and delivery of projects budgeted in the Capital budget.~~

~~6. CIP Budget Carryover. Appropriate funding from the Capital Reserve.~~

K.J. CIP Project Lapse. Appropriations for CIP projects lapse three years after budget adoption. Projects which lapse from lack of project account appropriations may be resubmitted for inclusion in a subsequent CIP. Project accounts, which have been appropriated, will not lapse until completion of the project phase.

L.K. CIP Reporting. Staff shall publish reports on the progress of delivering the Capital Improvement Plan at least quarterly, as part of Quarterly Budget Reports provided to the City Council. These reports shall include a summary of project budgets, a status update on projects in progress, and a listing of projects completed within the quarter.

M.L. Public Art. CIP projects will be evaluated during the budget process and prior to each phase for conformance with the City's public art policy, which generally requires that 1% of eligible project construction costs be set aside for public art. Excluded from this requirement are underground projects, utility infrastructure projects, funding from outside agencies, and costs other than construction such as study, environmental review, design, site preparation, land acquisition and equipment purchases. It is generally preferred that public art be incorporated directly into the project, but this is not practical or desirable for all projects; in this case, an in-lieu contribution to public art will be made. To ensure that funds are adequately budgeted for this purpose regardless of whether public art will be directly incorporated into the project, funds for public art will be identified separately in the CIP.

N.M. General Plan Consistency Review. The Planning Commission will review the Preliminary CIP for consistency with the General Plan and provide its findings to the Council prior to adoption.

O.N. Climate Action Plan Implementation. Council adopted Resolution No. 11159 (2020 Series) establishes a goal of community-wide carbon neutrality by 2035 and municipal operations carbon neutrality by 2030. The City's Capital Improvement Program is a critical implementation tool, and every CIP will be evaluated for alignment with these climate goals. Examples of ways projects or project components can align with these goals include (but are not limited to):

1. Elimination or reduction of vehicle miles traveled (e.g., active transportation and transit improvements),
2. Elimination or reduction of fossil fueled appliances, vehicles, and equipment,
3. Reduced energy consumption (e.g., efficient mechanical equipment, efficient lighting, etc.)
4. Carbon storage through tree planting or landscape management, and
5. Solid waste/ green waste diversion

P.O. Diversity, Equity and Inclusion. In 2020 the City Council declared diversity, equity, and inclusion (DEI) as integral aspects of their City Mission and Meta Goal, ensuring that through policies, programs, and projects, San Luis Obispo will foster a community that is welcoming, equitable, safe and inclusive for all. —The City's Capital Improvement Program is a critical component of achieving these goals by ensuring that capital projects are designed to be accessible, inclusive, and safe for diverse populations. Capital Improvement Projects can advance diversity, equity, through project design and accessibility, diverse representation in art

components of projects, ensuring there are programs to subsize costs for low-income communities to access the project, providing opportunities to diverse populations and stakeholders for community input, including DEI as a priority in RFPs or project scope, and ensuring the project does not disproportionately burden one community over another.

Section 10. CAPITAL FINANCING AND DEBT MANAGEMENT

[Link to the City's Capital Financing & Debt Management Policy](#)

POLICY STATEMENT

The City of San Luis Obispo (City) will maintain, at all times, debt management policies that are fiscally prudent, consistent with State and Federal law, and reflective of the most opportune financing strategies to deliver on the needs and goals of the community and the City organization. The Debt Management Policy establishes objectives, parameters, and guidelines for responsibly issuing and administering the City's debt. Prudent management of the City's debt program is necessary to achieve cost-effective access to the capital markets and demonstrate a commitment to long-term financial planning and sustainability.

DEBT MANAGEMENT OBJECTIVES

The policy sets forth key objectives for the City in issuing and administering the City's debt, which are to:

- Maintain the City's sound financial position.
- Minimize debt service and issuance cost.
- Maintain access to cost-effective borrowing.
- Achieve and maintain highest reasonable credit rating.
- Ensure full and timely repayment of debt.
- Maintain full and complete financial disclosure and reporting including voluntary disclosures.
- Ensure compliance with State and Federal laws and regulations.

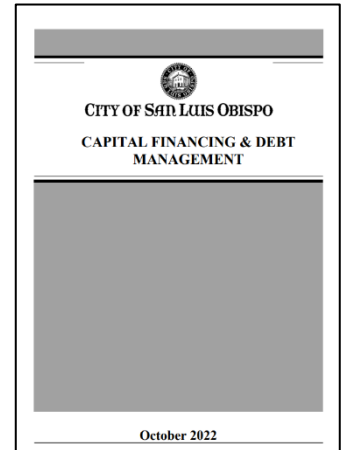
SCOPE

This policy establishes the framework for when the City of San Luis Obispo should consider issuing debt and the overall acceptable debt burden. Long-term debt is an effective way to finance capital improvements by matching the term of the debt with the useful life of the asset being financed. Properly managed debt provides flexibility in current and future operating budgets and provides the City with the long-term assets required to deliver services, programs, and public infrastructure to the community. The City recognizes that effective debt management practices require a comprehensive Debt Management Policy that details the use of capital debt to support the capital infrastructure in the community while maintaining a stable and prudent fiscal outlook.

DEBT CAPACITY

1. General Purpose Debt Capacity. The City will carefully monitor its levels of general purpose debt. Because the City's general-purpose debt capacity is limited, it is important that the City only use general purpose debt financing for high-priority projects when it cannot reasonably use other financing methods for two key reasons:

- a. Funds borrowed for a project today are not available to fund other projects tomorrow.
- a.b. Funds committed for debt repayment today are not available to fund operations in the future.



In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Fund revenues; and in no case should they exceed 15%. Further, direct debt will not exceed 2% of assessed valuation; and no more than 60% of capital improvement outlays will be funded from long-term financings.

2. Enterprise Fund Debt Capacity. The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

Section 11. HUMAN RESOURCE MANAGEMENT —

A. Regular Staffing

1. The budget will fully appropriate the resources needed for authorized regular staffing ~~and will limit programs to the regular staffing authorized.~~
2. Regular employees will be the core work force and the preferred means of staffing ongoing, year-round program activities that should be performed by regular full- or part-time City employees rather than limited-term employees or independent contractors.- The City will strive to provide competitive compensation and benefit schedules for its authorized regular work force. -Each regular employee will:
 - a. Fill an authorized regular position.
 - b. Be assigned to an appropriate bargaining unit, unless designated as an unrepresented management or confidential classification.
 - c. Receive salary and benefits consistent with labor agreements or other compensation plans.
3. To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
 - a. The Council will authorize ~~and approve funding to increase headcount for~~ regular full time equivalent positions.
 - b. The Human Resources Department will coordinate and approve the hiring of all regular and supplemental temporary staff.
 - c. All requests for additional regular positions will include evaluations of:
 - The necessity, term, and expected results of the proposed activity.
 - Staffing and materials costs including salary, benefits, equipment, uniforms, vehicles, clerical support, and facilities.
 - The ability and cost of private industry to provide the proposed service.
 - Additional revenues or cost savings, which may be realized.
4. Periodically, and before any request for additional regular positions, programs will be evaluated to determine if they can be accomplished with fewer regular employees. -(See Productivity Review Policy)
5. ~~Staffing and contract service cost ceilings will limit total~~Total expenditures for regular ~~employees, supplemental, temporary, and contract~~ staff, ~~and independent contractors~~ hired to provide operating and maintenance services- will be limited to approved budgets for regular, temporary, and contract salaries and benefits.

B. ~~Supplemental~~Temporary Staff

1. The hiring of ~~supplemental~~temporary staff will not be used as an incremental method for expanding the City's regular work force.
2. ~~Supplemental~~Temporary staff include all employees other than regular employees, elected officials, and volunteers. ~~Supplemental~~Temporary staff include seasonal or occasional employees, employees with irregular schedules, limited benefit employees, ~~temporary employees, limited-term~~ contract employees, CalPERS retired annuitants, and leased employees. ~~Supplemental~~Temporary staff may work on a full-time or part-time basis and will generally augment regular City staffing. ~~Supplemental~~Temporary staff may be used as extra-help during peak workloads, ~~as~~ coverage during extended absences of regular employees, seasonal workforce, ~~as~~ a means to assess ongoing staffing needs, or as the staffing method for program delivery that is most effectively staffed using part-time hours to ensure adequate coverage. –
3. The City Manager and Department Heads will encourage the use of ~~supplemental~~temporary staff rather than regular employees to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less than full-time, year-round staffing is required.

4. Under this guideline, ~~supplemental~~temporary staff hours will generally not exceed ~~50% of a regular, full-time position (1,000 hours annually), or about 50% of a fulltime position.~~ There may be limited circumstances where the use of ~~supplemental~~temporary staff on an ongoing basis in excess of this target may be appropriate due to unique programming or staffing requirements. However, any such exceptions must be approved by the City Manager based on the review and recommendation of the Directors of Finance and Human Resources ~~Director.~~

1. ~~Contract~~Limited-term contract employees are defined as ~~supplemental~~temporary staff, eligible for defined benefits, with written employment contracts that have a defined end-date and are approved by the Director of Human Resources ~~Director~~ and City Attorney ~~who may receive approved benefits.~~ Contract. Limited-term contract employees will generally be used for medium-term (generally between six months and two years) projects, programs, or activities requiring specialized or augmented levels of staffing for a specific period.
5. Leased of time. The services of limited-term contract employees will be discontinued upon completion of the assigned project, program, or activity. Accordingly, limited-term contract employees will not be used for services that are anticipated to be delivered on an ongoing basis and as such, a determination as to the expected need will be made at the end of each contract term and prior to extending or renewing a contract.
- 5.6. Temporary Agency Employees are employed during short-term, peak workload assignments to be accomplished using personnel contracted through an outside employment agency (OEA). In this situation, it is anticipated that City staff will closely monitor the work of leased employees and minimal training will be required. However, they will always be considered the employees of the OEA and not the City. All placements through an OEA will be coordinated through the Human Resources Department and subject to the approval of the Director of Human Resources ~~Director.~~

~~The services of contract employees will be discontinued upon completion of the assigned project, program or activity. Accordingly, contract employees will not be used for services that are~~

~~anticipated to be delivered on an ongoing basis and as such, a determination as to the expected need will be made at the end of each contract term and prior to extending or renewing a contract.~~

C. Overtime Management

1. Overtime should be used only when necessary and when other alternatives are not feasible or cost effective.
2. All overtime must be pre-authorized by a department head or delegate unless it is assumed ~~pre-approved~~ preapproved by its nature. ~~For example, (e.g.,~~ overtime that results when an employee is assigned to standby and/or must respond to an emergency or complete an emergency response~~).~~
3. Departmental operating budgets should reflect anticipated annual overtime costs and departments will regularly monitor overtime use and expenditures.
4. When considering the addition of regular or temporary staffing, the use of overtime as an alternative will be considered. The department will take into account:
 - a. The duration that additional staff resources may be needed.
 - b. The cost of overtime versus the cost of additional staff.
 - c. The skills and abilities of current staff.
 - d. Training costs associated with hiring additional staff.
 - e. The impact of overtime on existing staff.

D. Independent Contractors

Independent contractors are not City employees. ~~They~~ Independent contractors are used in construction of public works projects and delivery of operating, maintenance, or specialized professional services not routinely performed by City employees. Such services will be provided without close supervision by City staff, and the required methods, skills, and equipment will generally be determined and provided by the independent contractor. Contract awards will be guided by the City's purchasing policies and procedures. (See Contracting for Services Policy)

Section 12. CONTRACTING FOR SERVICES

A. General Policy Guidelines

1. Contracting with the private sector for the delivery of services provides the City with a significant opportunity for cost containment and productivity enhancements. As such, the City is committed to using private sector resources in delivering municipal services as a key element in our continuing efforts to provide cost-effective programs.
2. Private sector contracting approaches under this policy include construction projects, professional services, outside employment agencies, and ongoing operating and maintenance services.
3. In evaluating the costs of private sector contracts compared with in-house performance of the service, indirect, direct, and contract administration costs of the City will be identified and considered.
4. Whenever private sector providers are available and can meet established service levels, they will be ~~seriously~~ considered as viable service delivery alternatives using the evaluation criteria outlined below.
5. For programs, services, and activities currently provided by City employees, conversions to contract services will generally be made through attrition, reassignment or absorption by the contractor, after fulfilling required meet and confer obligations.

B. Evaluation Criteria

Within the general policy guidelines stated above, the cost-effectiveness of contract services in meeting established service levels will be determined on a case-by-case basis using the following criteria:

1. Is a sufficient private sector market available to competitively deliver this service and assure a reasonable range of alternative service providers?
2. Can the contract be effectively and efficiently administered?
3. What are the consequences if the contractor fails to perform, and can the contract reasonably be written to compensate the City for any such damages?
4. Can a private sector contractor better respond to expansions, contractions or special requirements of the service?
5. Can the work scope be sufficiently defined to ensure that competing proposals can be fairly and fully evaluated, as well as the contractor's performance after bid award?
6. Does the use of contract services provide us with an opportunity to redefine service levels?
7. Will the contract limit our ability to deliver emergency or other high priority services?

8. Overall, can the City successfully delegate the performance of the service but still retain accountability and responsibility for its delivery?

Section 13: ~~Productivity~~PRODUCTIVITY

Ensuring the “delivery of service with value for cost” is one of the key concepts embodied in the City's Mission Statement (San Luis Obispo Style— Quality With Vision). To this end, the City will constantly monitor and review our methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible.

This review process encompasses a wide range of productivity issues, including:

- A. Analyzing systems and procedures to identify and remove unnecessary review requirements.
- B. Evaluating the ability of new technologies and related capital investments to improve productivity.
- C. Developing the skills and abilities of all City employees.
- D. Developing and implementing appropriate methods of recognizing and rewarding exceptional employee performance.
- E. Evaluating the ability of the private sector to perform the same level of service at a lower cost.
- F. Periodic formal reviews of operations on a systematic, ongoing basis.
- G. Maintaining a decentralized approach in managing the City's support service functions. Although some level of centralization is necessary for review and control purposes, decentralization supports productivity by:
 - 1. Encouraging accountability by delegating responsibility to the lowest possible level.
 - 2. Stimulating creativity, innovation and individual initiative.
 - 3. Reducing the administrative costs of operation by eliminating unnecessary review procedures.
 - 4. Improving the organization's ability to respond to changing needs and identify and implement cost-saving programs.
 - 5. Assigning responsibility for effective operations and citizen responsiveness to the department.
- H. Maintaining City purchasing policies and procedures that are as efficient and effective as possible.