

Financial Policies

LONG TERM FINANCIAL POLICY AUDIT
SUBCOMMITTEE

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Financial Policy Overview

- Financial Policies are central to a strategic, long-term approach to financial management
- Santa Rosa currently has several financial policies identified as best practices by GFOA in place, including:
 - General Fund reserves
 - Reserves for Other Funds
 - Debt Management and Disclosures
 - Investments
 - Grant Administration
- In addition, the Santa Rosa City Charter requires an annual audit

Financial Policy Overview

- Why should the City adopt formal financial policies?
 - ✓ Institutionalize good financial management practices, promoting stability and continuity.
 - ✓ Define limits on the actions staff may take, providing boundaries within which staff can innovate in order to realize the organization's strategic intent.
 - ✓ Support good bond ratings and thereby reduce the cost of borrowing.
 - ✓ Manage risk to the financial condition.

Government Finance Officers Association (GFOA) recognize these such policies as an essential part of public financial management, and a best practice.

Other Financial Policies for Consideration



Structurally Balanced Budget



Long-Term Financial Planning



Capital Projects



Use of General Fund Reserves

Structurally Balanced Budget

Policy would offer a distinction between satisfying the statutory definition of balanced budget and achieving a true structurally balanced budget.

- Ongoing expenses match ongoing revenues
 - One-time funds must not be used to fund operational costs, ongoing programs, or temporary increases to City service levels unless part of a larger plan to balance ongoing revenues and expenditures over a multi-year budget period
- Reserves cannot solve structural deficits
 - Revenue and cost deviations can require the use of reserves to smooth budget changes in the short term
- Significant budget variances and recommended actions will be reported to the Finance Subcommittee and the City Council via budget reports.

Long-Term Financial Planning

Policy would commit the City to take a long-term approach to financial health. This is established practice in the City, but policy would formalize the process.

- Multi-year forecast of financial operations of the General Fund.
- Forecast includes changes in cost to maintain current service levels and costs related to new programs or program enhancements.
- Forecast part of budget presentation at City Council and Finance Subcommittee.

Capital Projects

Policy would cover the lifecycle of capital assets, including capital improvement planning, capital budgeting, project management, and asset maintenance.

- Ensure that the City allocates its capital funding resources effectively and maintains public infrastructure in the most cost-efficient manner.
- Capital budget will include as complete, reliable, and attainable scope and cost estimates as possible.
- Plan for funding projected staffing, operation and maintenance, and utility costs must be identified as part of the approval process for each capital project.
- Capital projects will not be budgeted unless there are reasonable expectations that resources will be available to pay for them.

General Fund Reserves

Policy would modify existing General Fund reserve policy which ensures a minimum level of unassigned fund balance is designated to meet unanticipated expenditures or revenue shortfalls, economic downturns, or local disasters.

- Expand policy to include the current “Fiscal Stability Reserves” and address the circumstances under which unassigned fund balance can be spent down.
- Use of unassigned fund balance would be limited to non-recurring expenditures, debt reduction, one-time capital costs or emergency situations.

Next Steps

- Develop policies based on discussion at Finance Subcommittee
- Depending on Subcommittee direction, could return with finished policies for final review, or take directly to City Council
- Goal to have Council adopt policies before Fiscal Year-End

Questions and Discussion