

# City of Carmel By The Sea

## Changes to Budget Policies and Guidelines and to Financial Policies and Guidelines

As of May 6, 2025

The following changes to the policy statements are recommended in order to better organize the Budget and Financial Policies so that they may be more clearly implemented and reported upon. Definitions are clarified and policy limits are consolidated.

“Track changes” are used to highlight the edits that have been made, Green colored edits represent the move of policy statements (withough change) and the elimination of duplicate statements. In general, “budget” policies have been taken out of the Financial section and added to the Budget section, with duplicate policies being eliminated.

Red track changes indicate changes to policy statements.

### **Policy Change Overview**

- Organize Policy into a Budget Section and a Financial section, eliminating duplication between sections (see green edits) and clarifying titles.
- Deleted duplicate policy statements.
- Clarify the definition of Capital Improvement Project (“CIP Project”)
- Increased Capital Budget Guideline 1 requirement for CIP expenditures to be 10% of revenue instead of 3.5% of revenue.
- Added Operating Budget Guideline 1 requirement that Operating Expenditures be no more than 90% of revenues, replacing the requirement that the budget surplus be 5% of expenditures.
- Change Capital Project Policy to allow approved capital projects to be carried over and stay open until completed or closed, instead of automatically closing at the fiscal year end.
- Eliminated Fund Balance Guideline 6 requiring a capital reserve target balance of 20% of the estimated total five-year capital improvement plan expenditures, replacing it with the above 90% reserve target.
- Eliminated reference to minimum reserve level chart.

# BUDGET POLICIES, AND PROCEDURES

## GUIDELINES

The budget process for the City of Carmel-by-the-Sea involves the citizens, City Council, and staff. Each person plays a critical role in the development of the budget for the upcoming year. The annual budget and operating plan balances the public service demands of the community with the fiscal resources of the City. It is intended to achieve the goals and objectives established by the City Council.

The goal of the City Administrator is to present a balanced budget to the City Council for review and adoption. A balanced budget is a budget in which revenue sources meet or exceed expected revenue use. Available funding sources shall be at least equal to recommended appropriations. As a general rule, the year-end Undesignated General Fund Balance should only be used for one-time costs, not to fund ongoing operations such as full-time employees.

As set forth in the Carmel Municipal Code, prior to the beginning of each fiscal year the City Council shall adopt a budget for expenditures and anticipated revenues. On or before February 15th of each year, the City Administrator will present to the City Council a proposed budget schedule. The City Administrator prepares and submits to the City Council a proposed operating and capital budget for the forthcoming fiscal year. The City Council shall adopt the budget by July 1st.

The City Administrator shall have the right to approve the transfer of appropriations within a departmental budget; however, no additional positions shall be created without the authorization of the City Council. All transfers of appropriations between departments or in regards to capital items or projects shall be approved by the City Council. The City Administrator shall be charged with the responsibility of controlling the expenditures for all departments in accordance with the approved budget. A report on current year revenues, expenditures and fund balances shall be maintained.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balanced set of accounts. The minimum number of funds is maintained consistent with legal and managerial requirements. Annually appropriated budgets are legally adopted on a budgetary basis for the governmental fund types (General Fund, Special Revenue Fund, Debt Service Fund, and Capital Projects Fund) and are controlled on a fund and departmental level. These funds are used to account for most of the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified-accrual basis of accounting and budgeting. Expenditures are recognized as encumbrances when a commitment is made. Unencumbered appropriations lapse at year-end.

## CAPITAL BUDGET POLICY

The City develops an annual five-year plan for capital improvements; it includes project design, development, implementation, and operating and maintenance costs. Each project in the 5-year Capital Improvement Plan (CIP) shows the estimated capital and on-going maintenance costs, known and potential funding sources and a design/development schedule. A capital improvement project is typically a permanent structural change to a property or asset to prolong its life, increase its value, or enhance its capabilities. As used in the CIP, projects include land acquisition, buildings and facilities construction, asset upgrades or large-scale maintenance work and the planning needed to facilitate plans and implementation for infrastructure (for example, the Housing Element). These projects do not have a cost threshold. A capital outlay (fixed asset) purchase is any single item or piece of equipment that costs more than \$510,000 and has an expected useful life exceeding one year. The development of the CIP is coordinated with the development of the operating budget. The CIP is a planning document; the City Council appropriates funding for capital projects in the annual operating budget. Costs for professional services needed to implement the CIP are to be included in the appropriate year's operating budget.

Annual operating budgets should provide adequate funds for maintenance of the City's buildings and maintenance and replacement of the City's capital equipment. The City will make all capital improvements in accordance with an adopted and funded capital improvement program. Prior to ratification of the capital budget for the forthcoming year by the City Council, the Planning Commission shall review the capital improvement plan and shall advise the City Council as to its recommendations regarding the proposed capital projects conformity with the City's General Plan in accordance with the Government Code.

Capital expenditures shall be effectively planned and controlled.

### Guidelines:

1. The level of capital improvement expenditures, excluding road maintenance program expenditures and lease payments, is established at a minimum of ten percent (10%) ~~three and one half percent (3.5%)~~ of total revenues.
2. Funding for the road maintenance program should improve the pavement condition index.
3. The City shall maintain a Five-Year Capital Improvement Program (CIP), which shall be updated at least annually as part of the budget review process.
4. The City shall annually establish a phasing calendar for capital improvement expenditures.
5. At least ten percent (10%) of the unrestricted funds designated for capital project expenditures shall be set aside for unanticipated expenditures.
6. The City shall conduct periodic reviews of property and facilities to determine the appropriate use and disposition of said property and facilities.

7. The City shall consider the ongoing impact of operations and maintenance expenses before undertaking any capital improvement expenditure.
8. The City shall maintain a capital reserve policy as described in the ~~Reserve~~ Capital Project Policy.
9. Public participation in the Capital Improvement Program is a priority concern for the City.
10. All projects included in the Capital Improvement Plan shall be consistent with the City's General Plan.
- ~~Capital projects that are not encumbered or completed during the fiscal year are required to be re-budgeted to the next fiscal year and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the proposed budget~~

## OPERATING BUDGET POLICY

Operating revenues shall exceed operating expenditures.

### Guidelines:

1. Total Expenditures, excluding CIP, shall not exceed 90% of budgeted Revenue.  
~~The annual operating budget shall contain a current surplus (or "revenue buffer") of at least five percent (5%) of projected expenditures (excluding CIP).~~
2. A balanced budget is a budget in which total funding sources meet or exceed uses.  
~~An appropriated City Discretionary Account of at least one half of one percent (0.5%) of total projected General Fund expenditures shall be maintained (excluding CIP).~~
3. Ongoing expenses shall not be funded with one-time revenues.
4. The City shall establish salary adjustments in conjunction with the budget process.
5. The City will seek to comply with suggested criteria of the Government Finance Officer's Association in producing a budget document that meets the Distinguished Budget Presentation criteria.

# FINANCIAL POLICIES AND PROCEDURES GUIDELINES

The City of Carmel-by-the-Sea has strong financial policies, based on City Council direction, which guide staff to ward ~~carryngy~~ out sound fiscal planning and continued management of fiscal integrity. The financial policies are divided into five categories: Capital ~~Budget-Project~~ Policyies, Operating Management, Fund Balance Policy, Debt Policies, and Investment Policies. The City has financial policies that are adopted by the City Council with review every two years during the budget development process. The financial policies help ensure that the City maintains a healthy financial foundation into the future.

The goal of these policies is to promote:

- An extended financial planning horizon to increase awareness of future potential challenges and opportunities;
- Setting aside reserves for contingencies, replacement of capital equipment, and other similar needs;
- Maintaining the effective buying power of fees and charges and increasing cost recovery where directed to do so;
- Accountability for meeting standards for financial management and efficiency in providing services;
- Planning for the capital needs of the City;
- Maintaining manageable levels of debt while furthering quality bond ratings; and,
- Communication to residents and customers on how the community goals are being addressed.

## CAPITAL PROJECT POLICY

Capital expenditures shall be effectively planned and controlled. Capital projects that have not been completed by the fiscal year-end will be carried over into the subsequent fiscal year. Fund balance equal to the remaining balance of the uncompleted projects will be reserved.

## ~~CAPITAL BUDGET POLICY~~

~~The City develops an annual five-year plan for capital improvements; it includes project design, development, implementation, and operating and maintenance costs. Each project in the 5-year Capital Improvement Plan (CIP) shows the estimated capital and on-going maintenance costs, known and potential funding sources and a design/development schedule. As used in the CIP, projects include land acquisition, buildings and facilities construction; these projects do not have a cost threshold. A capital outlay (fixed asset) purchase is any single item or piece of equipment that costs more than \$10,000 and has an~~

~~expected useful life exceeding one year. The development of the CIP is coordinated with the development of the operating budget. The CIP is a planning document; the City Council appropriates funding for capital projects in the annual operating budget. Costs for professional services needed to implement the CIP are to be included in the appropriate year's operating budget.~~

~~Annual operating budgets should provide adequate funds for maintenance of the City's buildings and maintenance and replacement of the City's capital equipment. The City will make all capital improvements in accordance with an adopted and funded capital improvement program. Prior to ratification of the capital budget for the forthcoming year by the City Council, the Planning Commission shall review the capital improvement plan and shall advise the City Council as to its recommendations regarding the proposed capital projects conformity with the City's General Plan in accordance with the Government Code.~~

~~Capital expenditures shall be effectively planned and controlled.~~

#### ~~Guidelines:~~

- ~~1. The level of capital improvement expenditures, excluding road maintenance program expenditures and lease payments, is established at three and one half percent (3.5%) of total revenues.~~
- ~~2.1. Funding for the road maintenance program should improve the pavement condition index.~~
- ~~3.1. The City shall maintain a Five Year Capital Improvement Program (CIP), which shall be updated at least annually as part of the budget review process.~~
- ~~4.1. The City shall annually establish a phasing calendar for capital improvement expenditures.~~
- ~~5.1. At least ten percent (10%) of the unrestricted funds designated for capital project expenditures shall be set aside for unanticipated expenditures.~~
- ~~6.1. The City shall conduct periodic reviews of property and facilities to determine the appropriate use and disposition of said property and facilities.~~
- ~~7.1. The City shall consider the ongoing impact of operations and maintenance expenses before undertaking any capital improvement expenditure.~~
- ~~8.1. The City shall maintain a capital reserve policy as described in the Reserve Policy.~~
- ~~9.1. Public participation in the Capital Improvement Program is a priority concern for the City.~~
- ~~10.1. All projects included in the Capital Improvement Plan shall be consistent with the City's General Plan.~~
- ~~11.1. Capital projects that are not encumbered or completed during the fiscal year are required to be re-budgeted to the next fiscal year and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the proposed budget.~~

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## OPERATING MANAGEMENT POLICY

Operating revenues shall exceed operating expenditures.

Guidelines:

- ~~1. The annual operating budget shall contain a current surplus (or “revenue buffer”) of at least five percent (5%) of projected expenditures.~~
- ~~2.1. A balanced budget is a budget in which total funding sources meet or exceed uses.~~
- ~~3.1. An appropriated City Discretionary Account of at least one half of one percent (0.5%) of total projected General Fund expenditures shall be maintained.~~
- ~~4.1. Ongoing expenses shall not be funded with one time revenues.~~
1. The City shall establish internal service funds for the repair, operation, and replacement of rolling stock and data processing equipment.
- ~~5. The level of capital outlay expenditures is established at three percent (3%) of total revenues. [\*\*\* see Capital Budget Policy above]~~
- ~~6. The City shall annually establish a phasing calendar for capital outlay expenditures. [\*\*\* see Capital Budget Policy above]~~
- ~~7. The City shall develop a five year forecast of operating revenue and expenditures. [\*\*\* see Capital Budget Policy above]~~
- ~~8. The City shall establish salary adjustments in conjunction with the budget process.~~
2. The City shall review the relationship between fees/charges and the cost of providing services at least every three years.
3. The City’s fees and charges for services shall be adjusted annually, based upon the San Francisco-Oakland Consumer Price Index.
- ~~9. The City will seek to comply with suggested criteria of the Government Finance Officer’s Association in producing a budget document that meets the Distinguished Budget Presentation criteria. [\*\*\* see Operating Budget Policy above]~~

## FUND BALANCE POLICY

The Fund Balance Policy is designed to develop standards for setting reserve levels for various, significant City funds. Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength. The City shall maintain reserves at a prudent level and shall use reserves appropriately with a focus on contributing to the reserves in good times and drawing on the reserves in times of difficult budget periods to maintain a consistent level of service and quality operations. Use of reserves is meant to supplement the annual budget.

### Guidelines:

1. General Fund ~~and Hostelry Fund~~ reserves shall be maintained at no less than ~~ten-fifty~~ percent (50~~40~~%) of ~~their~~ annual projected operating revenues~~expenditures~~.
2. The City shall maintain prudent reserves for ~~identified-operating~~ liabilities and debt service.
3. A Vehicle Replacement reserve will be maintained sufficient to replace vehicles and heavy equipment at the end of their useful lives, with the target being 10% of the total City fleet replacement value.
4. Technology equipment replacement reserves will be maintained sufficient to repair covered equipment and for replacement at the end of its useful life.
5. The City will maintain a long-term budget stability reserve consisting of any Unassigned General Fund Balance. When available, the year-end General Fund operating surplus will be dedicated to the long-term budget stability reserve.
6. ~~A general capital reserve fund will be maintained with a targeted balance of 20% of the estimated total five-year capital improvement plan project expenditure.~~  
Net proceeds from the sale of City owned property will be dedicated to the general capital reserve. Funds in the general capital reserve will be allocated through the budget process for capital projects.
7. Reserves shall be used only for established purposes.
8. Depleted reserves shall be restored as soon as possible.
9. ~~A minimum level for each of the reserve funds shall be established (see chart below).~~
- 10.9. The City shall maintain reserves required by law, ordinance and/or bond covenants.