

**CITY OF DANA POINT  
COUNCIL POLICY**

<b>SUBJECT:</b>  <b>Operating Budget Policy</b>	<b>PAGE:</b>  <b>1 of 4</b>	<b>EFFECTIVE DATE:</b>  <b>06/19/18</b>	<b>POLICY NO.:</b>  <b>230</b>
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**BACKGROUND**

The operating budget is one of the most important policy documents produced by the City because it directs the allocation of scarce financial resources to pay for public services. Prudent budget decisions support high-quality services and long-term financial stability for the City government.

**BUDGET AND FINANCIAL REPORTING CALENDAR**

**Publishing budget and financial reporting calendar.** An annual budget process and financial reporting calendar will be presented by the City Manager for City Council adoption prior to the beginning of each fiscal year. The budget calendar will include, among other items, target dates associated with public meetings regarding updates/changes to the: City's Strategic Plan; community survey; budget priorities and objectives; fee schedules; capital and facilities projects; financial policies; and, long-term financial plan. The calendar should include dates for budget workshops and hearings. See Sample Attachment A.

**IMPORTANT FEATURES OF THE CITY'S BUDGET**

- **Funds included in the budget.** All accounting funds used by the City to pay for its operations are included in the City's budget process. This provides a comprehensive view of the City's resources. Funds for which the City accounts for moneys held in trust as a fiduciary for others (e.g. developer deposits; fees collected on behalf of, and transferred to other government agencies) and for which the City records neither revenues nor expenditures are reported in annually audited financial statements, but are not included in the budget.
- **Biennial Budget.** The Dana Point Municipal Code requires the City Manager to submit a proposed budget to the City Council for consideration. The City Council adopts a biennial budget, for each fund, that addresses plans for the next two years of revenues and expenditures. This provides City officials with more foresight than a one-year budget. Once adopted, the City Manager is responsible for implementing the budget. All unencumbered appropriations lapse at year-end. The City Council has the authority to amend the budget at any time.

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Spending priorities will be identified in the budget by identifying line-items considered 1) core; 2) important; and, 3) value-added; or some combination of the prior.

- **Modified accrual accounting is used for government and agency funds.** Under modified accrual accounting, revenues are recognized when they become measurable and available as current assets. The primary revenue sources susceptible to accrual are property and sales taxes, investment income, federal entitlements, transient occupancy taxes, franchise fees, motor vehicle fees and gas tax subventions. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.
- **Level of control.** Per the Municipal Code, the City Manager has the authority to transfer appropriations from one function or activity to another within the same fund provided such changes would neither have a significant policy impact, nor affect budgeted year-end fund balances. The legal level of budgetary control is established at the fund level, though the City also employs controls at the department level within funds.
- **Interim reporting.** The Director of Financial Management will provide monthly financial reports to the City Council that include budget versus actual performance, including encumbrances. On a quarterly basis; he/she will also provide, among other items, a detailed narrative regarding budget performance; status of reserves in relation to the Reserve Policy; and, a listing of all budget adjustments fiscal year-to-date.
- **Fiscal Impact Section of City Council Agenda Reports.** Structural budget impacts of City Council actions will be identified in the Fiscal Impact Section of City Council Agenda Reports. Should a proposed action create a projected imbalance in the current or future budgets, a discussion will be included to address solutions to addressing the projected imbalance.

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**THE DEFINITION OF A BALANCED BUDGET**

State law does not require cities to have a balanced budget. However, the City through this policy will maintain a balanced budget over the two-year period of the biennial budget. This means that:

1. Operating revenues must fully cover operating expenditures. Operating expenditures include costs for operations, including debt service and amounts necessary to maintain existing Infrastructure Assets and Facility Assets as defined in their respective financial policies;
2. Ending fund balance must meet minimum financial policy levels after consideration of the operating budget and one-time capital investment in new assets;
3. Budgets must be accompanied by forward-looking longer-term projections as defined in the Long-Term Financial Policy and that extend beyond the two-years in the adopted budget.

This definition addresses longer-term issues of a budget that relies in the short-term on funding from temporary or one-time revenue sources such as accumulated fund balances or selling assets, and that otherwise might be considered balanced. For this reason, the City has adopted its own definition of the balanced budget, designed to ensure future financial sustainability.

**THE BUDGET PROCESS**

The City's Director of Financial Management is responsible for compiling the budget, and the City Manager is responsible for proposing a balanced budget to the City Council. The City Council may refer the proposed budget to a City Council designated committee for discussion and a recommendation.

The City's fiscal year begins on July 1<sup>st</sup>. Hence, the City's budget will be adopted at a duly noticed public hearing by the City Council on or before June 30<sup>th</sup>.

The City will produce documentation sufficient for the citizens of Dana Point to understand the budgetary decisions that the City has made, and their policy implications.

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**Attachment A SAMPLE BUDGET CALENDAR**

<b>Month</b>	<b>1<sup>st</sup> Council Meeting</b>	<b>2<sup>nd</sup> Meeting</b>
July	DARK	
August	DARK	DARK
September	Contract for Community Survey (even numbered years)	Fiscal Year Roll-Over Financial Report
October	Status of Plan to Address Unfunded Pension Liabilities Follow-Up on Any Needed Financial Policy Updates	CIP and Facilities Project Update – Current and Potential
November		
December	Audited Comprehensive Annual Financial Report	DARK
January	Results of Community Survey	Draft Long-Term Financial Plan Presentation Strategic Plan Review
February	Financial Policy Review	Budget Priority Workshop
March	Mid-Year Financial Report	
April		Budget Workshop
May	Budget Workshop	Budget Workshop
June	Budget Hearing (odd numbered years): Adopt Strategic Plan, Financial Policies, Fee Schedule, 7 Year CIP, Long-Term Financial Plan, Budget and Gann Limit.	Budget Hearing, If Needed