

Sacramento Metropolitan Fire District

ADMINISTRATIVE POLICY

POLICY TITLE: Financial Planning and Budget Policy OVERSIGHT: Finance
POLICY NUMBER: 12.003.01 EFFECTIVE DATE: 09/14/23 REVIEW DATE: 09/14/23

Background

The Sacramento Metropolitan Fire District (District) is an independent special district governed by an elected Board of Directors (Board) responsible for ensuring the appropriate expenditure of all property taxes, emergency medical service (EMS) fees, and other income sources.

This policy serves as a guiding document for the District and Board, directing financial planning and annual budget practices that will support long-term fiscal sustainability.

This policy was adopted by the Board of Directors and implemented with the FY 2023/24 Final Budget.

Purpose

The purpose of this policy is to guide District fiscal planning, deliberations and decisions toward maintaining long-term financial stability, providing adequate funding for Capital Improvement Program (CIP) expenditures, and accelerating payment of unfunded liabilities. This policy will assist the Board in making informed choices about the provision of District services and management of capital assets, and facilitate effective and informed budget input by District constituents.

This policy guides the development of the District's annual budget and directs Finance Division staff on budget development practices, including recognition of year-end revenues and calculation of the General Fund reserve.

Scope

This policy applies to all District personnel.

Definition

1. **Balanced Budget:** An annual budget in which operating revenues and any one-time revenues are greater than or equal to ongoing operating expenditures.
2. **Capital Improvement Program (CIP):** A multi-year plan that identifies needed capital projects and equipment, provides a planning schedule, and financing options.
3. **CIP Reserves:** Reserves accumulated for the purchase of apparatus, equipment, and the construction, rehabilitation, and improvements to District facilities and properties. These reserves are comprised of the reserves from both the Capital Facilities Fund and the Development Impact Fees Fund.

4. **Encumbrances:** Commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments).
5. **Final Budget:** Using the preliminary budget as a basis, the District budget scheduled and developed for consideration by the Board before October 1 every year. The final budget is subsequently updated in the Midyear Budget.
6. **Five-Year Budget Forecast:** A budget forecast including the upcoming fiscal year and at least four (4) additional years, displaying major revenue and expenditure sources, transfers, ending General Fund reserve balance, and General Fund reserve ratio.
7. **Fund Balance:** Governmental Fund balance sheet assets less liabilities, equals fund balance. Accountants distinguish up to five (5) separate categories of fund balance, based on the extent to which the government is bound to honor specific purposes spending constraints.
8. **General Fund:** For budgeting and reporting purposes, the District records all transactions in the General Fund that are not specifically accounted for in any other fund. The other funds include the Capital Facilities Fund, the Leased Properties Fund, the Grant Fund, the Development Impact Fees Fund, the Intergovernmental Transfer (IGT) Fund, and Special Projects Fund.
9. **Labor Budget:** A component of the District's budget comprising compensation (e.g., wages, overtime, constant staffing, leave balances used, and incentives) and benefits (e.g., pensions, workers' compensation, and employee medical, dental, and vision insurance).
10. **Midyear Budget:** Based on the approved Final Budget for that fiscal year and incorporating actual revenue and expenditure information from the first six months of the fiscal year and projections for the last six months, the Midyear Budget provides updated budget information and is considered by the Board before April 1 every year.
11. **Operating revenues:** For purposes of this policy, operating revenues are defined as District revenue in the General Fund and any transfers to the General Fund that have either been (a) transferred to the General Fund for each of the five (5) prior fiscal years or (b) transferred from a program established and funded through state or federal law and does not have an expiration or sunset date. Operating revenues do not include revenues or transfers to the General Fund that are known to be one-time.
12. **Operating expenditures:** District expenditures paid from General Fund balances, including transfers from the General Fund to other funds.
13. **Preliminary Budget:** The District Budget scheduled and developed for consideration by the Board before July 1 every year. The Preliminary Budget is subsequently updated in the Final Budget and Midyear Budget.

Policy

1. Budget Development Process
 - a. The District prepares and presents to the Finance and Audit Committee and Board of Directors three (3) separate budget plans: the Preliminary Budget Final Budget and Midyear Budget.
 - b. The District's budget development process follows these seven (7) steps for each budget process (Preliminary Budget, Final Budget, and Midyear Budget):
 - i. The Finance Division prepares and distributes to division budget personnel a calendar for the upcoming budget process.
 - ii. Divisions input their budget requests into the financial management system.
 - iii. Divisions explain and discuss their requests with branch leadership and the Finance team.
 - iv. Requests are evaluated and presented to the District's executive management team, and adjustments are identified to ensure proposed expenditures match available revenues and the District's strategic direction and priorities.
 - v. The Finance Division prepares and presents budget materials for the Finance and Audit Committee and Board.
 - vi. The Board amends (if necessary) and ultimately adopts the proposed Budget.
 - vii. The Finance Division monitors revenues and expenditures, and reports variances in bimonthly fiscal reports, or as often as necessary to ensure the Board is informed about unanticipated budget trends.
 - c. Appropriations in all budgeted funds lapse at the end of the fiscal year, even if there are related encumbrances. Valid outstanding encumbrances (those for which performance under an executory contract is anticipated in the next year) must be re-appropriated in the Final Budget.
 - d. Budget Transfers
 - i. Transfers between District funds or objects (salaries and benefits, services and supplies, capital outlay, and debt service or other expenditures) must be approved by the Board.
 - ii. Transfers within the same fund or object (salaries and benefits, services and supplies, capital outlay, and debt service or other expenditures), including transfers within divisions and between divisions, must be

approved by the Deputy Chief(s) overseeing the division(s) affected by the transfer.

2. **Balanced Budget**
 - a. The District shall endeavor to propose balanced budgets for all funds, as defined above. If a balanced General Fund budget is not proposed, the budget shall specify the amount and share of General Fund reserves to be used.
 - b. The District shall also endeavor to achieve a projected General Fund budget that is balanced for all years included in the Five-Year Budget Forecast.
3. **Financial Stability**
 - a. The District will strive to achieve sustained financial stability by:
 - i. Building Capital Facilities Fund balances that accumulate and deplete in harmony with the needs and timing of capital projects identified in the five-year CIP Plan and capital outlay budget, and
 - ii. Facilitating accelerated payment of the District's unfunded liabilities.
4. **General Fund Reserve**
 - a. In order to minimize the variance between Final Budget and Midyear Budget revenues, expenditures, and transfers, the beginning General Fund reserve reported in the Final Budget shall incorporate the most up-to-date prior year revenue, expenditure, and transfer data available when the Final Budget is prepared.
 - b. The District shall strive to maintain a reserve ratio in the General Fund set at 15 percent of General Fund expenditures for unplanned emergencies.
 - c. The reserve ratio will be calculated and established at budget adoption (Preliminary Budget, Final Budget, or Midyear Budget).
 - d. For purposes of calculating the General Fund reserve ratio, accelerated payments toward unfunded liabilities, expenditures approved as a one-time expenditure in the given fiscal year, and operating transfers out of the General Fund to other funds to support one-time expenditures in those funds (e.g., capital outlay in the Capital Facilities Fund) are excluded.
 - e. The General Fund reserve calculation shall incorporate the estimated balance of General Fund on June 30 of the budget year.
 - f. **Calculation**
 - i. The General Fund reserve shall be determined by first calculating the projected fund balance of the General Fund at the end of the fiscal year,

incorporating all General Fund revenues, expenditures, and financing sources and uses. This calculation is the numerator of the reserve ratio.

- ii. The denominator of the reserve ratio shall be the projected General Fund expenditures (excluding capital and one-time expenditures) and other financing uses, including transfers out (excluding any capital outlay support cost transfers to other funds).
- iii. The reserve ratio is calculated by dividing i by ii above.

5. One-Time and Limited Term Revenues

- a. The District recognizes the considerable financial risk posed by applying one-time and limited term revenue sources to long-term expenditures.
- b. The District will only pay for ongoing expenditures from recurring operating revenue sources as defined in this policy.

6. Excess Reserves

- a. In March of each year, after the Fifteen (15) percent General Fund reserve ratio has been achieved, the remaining surplus shall be allocated as follows:
 - i. Fifty (50) percent of the remaining surplus shall be transferred to the Capital Facilities Fund for capital improvement expenditures, and
 - ii. Fifty (50) percent shall be allocated as accelerated payment of District's unfunded liabilities (first toward pension liability until achieving an eighty five (85) percent funding level, and then toward Other Post Employment Benefit costs).
- b. If the Fifty (50) percent allocation to the Capital Facilities Fund, when combined with planned revenues from the Capital Facilities Fund is sufficient to fund that year's capital expenditures in the Capital Facilities Fund, then the remainder shall be allocated as an accelerated payment of the District's unfunded liabilities.

7. Labor Cost as a Share of General Fund Revenues Calculation

- a. For purposes of budget information, labor cost as a share of General Fund revenues shall be calculated by dividing the budgeted costs of labor expenses (numerator) by all General Fund operating revenues (denominator), as defined.

8. Five-Year Budget Forecast

- a. The Five-Year Budget Forecast shall be used as a budget tool updated annually in conjunction with the preliminary and final budget for projected revenues and expenditures.

- b. The Five-Year Budget Forecast will also be updated whenever a significant financial event occurs or is anticipated to occur mid-year in order to assess the severity of the impact.
- c. The Five-Year Budget Forecast shall also be evaluated before undertaking any significant financial commitment to ensure the District's fiscal health will be maintained.
- d. Accuracy.
 - i. Data included in the first two (2) years of the forecast is the most predictable and reliable.
 - ii. Data contained in later years of the forecast is less reliable due to uncertainties regarding items such as future property tax growth, service costs, and capital needs. Although less reliable, the information is a useful indicator of trends and the potential need for early corrective intervention.

References

1. Debt Management Policy
2. Reserve Funding Policy
3. Capital Asset Policy
4. Capital Improvement Program Policy