

Lompoc City Council Agenda Item



City Council Meeting Date: May 6, 2014

TO: Patrick Wiemiller, City Administrator

FROM: Brad Wilkie, Management Services Director
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SUBJECT: Financial Reserve Policies and Follow-Up to Mid-Year Review; Adoption of Resolution Nos. 5902(14) and 5913(14)

Recommendation:

Staff recommends the City Council:

- 1) Adopt Resolution No. 5902(14) approving a set of Financial Principles to provide for policies and procedures for financial planning (Attachment 1); and
- 2) Adopt Resolution No. 5913(14) setting a General Fund Reserve policy and interim reserve levels for certain other funds and functions of the City (Attachment 2); or
- 3) Provide alternate direction.

Background:

At the March 25, 2014, Special Meeting of the City Council, presentations of a General Fund reserve policy, as well as interim policies for three of the City's primary business units and two of its major programs were made (Attachment 3). While staff recommendation was to adopt a resolution related to guiding principles and adoption of the reserve policies, the Council directed staff to return with the reserve policies for adoption, possibly as part of the consent calendar.

At the same meeting, the Council was provided an in-depth presentation related to expected financial trends. In addition, the economic projection model draft was shown to the Council for the first time. This model, using various assumptions about future trends, will allow staff to develop projections the Council can use to help guide policy decisions related to service levels and budget priorities for the remainder of the current budget cycle, as well as for the next three budget cycles. The model was created with City-specific information, but with flexibility related to revenue and expenditure assumptions. The model provides for results beyond the current budget cycle through the next three budget cycles, for a total of eight years of information.

The third major component of the March 25, 2014, Special Meeting, revolved around economic principles and the Council's priorities. A set of 16 guiding principles was presented for review and recommended for adoption, along with the reserve policies identified above.

As part of the in-depth presentation on March 25, 2014, a slide was provided showing trends for the General Fund's unrestricted available reserves, including the non-General Fund AB702 reserves. The slide showed the reduction in reserves since FY 2011-12 due to mid-cycle appropriations. Most mid-cycle appropriations occurred concurrently with the related program changes, causing the need for the additional appropriations. There have been some program changes that do not yet have the related appropriation changes brought forward, or have not yet been finalized but will result in the need for additional appropriations.

Necessary mid-cycle appropriations may include additional actions by the end of the current fiscal year. Such actions may include program changes being considered by Departments to be implemented during FY 2014-15. Known program changes requiring additional appropriations include contract costs in excess of existing budgeted costs, as well as a settlement agreement resulting in additional compensation costs.

Two other recommended appropriations are related to the unanticipated replacement of Livescan fingerprinting machines, located in the jail and in the Police Department, which are beyond their useful lives and the recently approved CAD/RMS/JMS dispatch system. The capital cost for the replacements are recommended to be paid for with one-time revenues (Livescans) and internal financing (CAD/RMS/JMS). The Livescan purchase is in keeping with the new principle of using one-time revenues to reduce ongoing maintenance costs, as the maintenance costs for these machines are now exceeding the annualized replacement costs. Both machines are heavily used and generate revenues offsetting a portion of their operational costs, but not the capital costs. While the purchase and maintenance cost of the CAD/RMS/JMS system can be budgeted in future budget periods, the capital outlay and related financing proceeds will need to be appropriated during the FY 2013-15 cycle.

Discussion:

Financial Principles, Resolution No. 5902(14)

Resolution No. 5902(14), related to financial principles, provides staff and Council with a foundation for fiscal policy during the upcoming budget cycle and for guiding the development of future budgets. The principles recommended are as presented at the March 25, 2014, City Council meeting.

General Fund Reserve Policies Directive, Resolution No. 5913(14)

The General Fund reserve policy that is recommended to be adopted by Resolution No. 5913(14) would provide direction to staff to modify the existing Fund Balance Policy to reflect the changes stated in the General Fund Policy. One such change is to close the Economic Uncertainty Fund into the General Fund. The Economic Uncertainty Fund is reported as unrestricted fund balance in the General Fund, regardless of its separate status in the City's fund structure.

The second component of the General Fund Reserve Policy recommendation is for the City Council to adopt interim policies for three major business enterprises and two significant risk mitigation programs. The Solid Waste, Wastewater, and Water Utility Divisions do not currently have reserve policies similar to the policy adopted for the Electric utility in 1994. The City's self insurance status for Workers' Compensation and General Liability risks requires minimum levels of reserves as part of the City's membership in the California State Association of Counties – Excess Insurance Authority (CSAC-EIA) risk management programs.

Supplemental Appropriations

A third action resulting from the mid-year review is the accounting for obligations agreed to since the implementation of the FY 2013-15 Budget, which have not yet been incorporated. The mid-cycle appropriations have generally been accounted for at the time of the approval of the action resulting in the additional obligations. However, there have been some actions resulting in budgetary effects for the FYs 2013-15 terms where the budgetary changes have not yet been approved. In addition to the existing approved budget changes, some City Departments are considering program changes to implement during FY 2014-15 to take advantage of changes in operations. Staff will return at a later date to address mid-cycle program changes comprehensively.

Fiscal Impact:

Approving Resolution No. 5902(14) to enact principles for financial policies will not have a direct effect on the City's General Fund or the "major" Enterprise Funds. Setting financial reserve policies (interim or permanent) by Resolution No. 5913(14) will also not have a direct immediate effect on the General Fund or the "major" Enterprise Funds. However, the implementation of budget decisions, reserve procedures and programs based on the principles and reserve policies adopted by resolution will have an effect on General Fund and Enterprise Fund activities over time. Future decisions to implement or modify programs or services can be based on reserve policies and underlying financial principles. The long-term effect of having written policies related to reserves is expected to be beneficial to the City and will provide a strong financial foundation and flexibility in providing services into the future.

Conclusion:

Staff recommends the Council adopt the financial principles identified in Resolution No. 5902(14). The proposed General Fund policy (Resolution No. 5913(14)) is also recommended for adoption, along with the interim policies. Staff also recommends approving the interim operational reserve policies for the City's "major" Enterprise Funds (Water, Wastewater, and Solid Waste Utilities and the Workers' Compensation and General Liability self-insurance programs of the Insurance and Benefit Fund). The Electric Fund's existing policy will continue in its current form. Proposed Fund Balance Policy changes suggested in the General Fund Policy and supplemental appropriations for mid-cycle adjustments to the FY 2013-15 Budget will be brought to the Council at a later date.

Staff proposes the next steps in regards to the mid-year review include returning to the Council with recommendations for permanent comprehensive reserve policies for the major enterprise funds during the remainder of the FY 2013-15 Budget cycle. The FY 2015-17 Budget preparation will begin in October 2014, which is five months away.

Respectfully submitted,

Brad Wilkie, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Patrick Wiemiller, City Administrator

Attachments: 1) [Resolution No. 5902\(14\)](#)
2) [Resolution No. 5913\(14\)](#)
3) [March 25, 2014 Staff Report \(with Transmittal letter – General Fund draft reserve policy and supporting documentation dated May 31, 2013\)](#)