



LODI CITY COUNCIL
Carnegie Forum
305 West Pine Street, Lodi

"SHIRTSLEEVE" SESSION

Date: September 13, 2016

Time: 7:00 a.m.

For information regarding this Agenda please contact:

Jennifer M. Ferraiolo

City Clerk

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Informal Informational Meeting

A. Roll Call by City Clerk

B. Topic(s)

B-1 Discuss Framework for Budget and Fiscal Policies (CM)

C. Comments by Public on Non-Agenda Items

D. Adjournment

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

Jennifer M. Ferraiolo
City Clerk

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CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Discuss Framework for Budget and Fiscal Policies

MEETING DATE: September 13, 2016

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: Discuss framework for Budget and Fiscal Policies.

BACKGROUND INFORMATION: One of the goals identified by staff and approved by Council in mid-2015 was the development of a comprehensive set of financial policies. Budgetary policies were last included in the 2005-06 Budget document. Staff brought forward information in the Shirtsleeve meetings of February 2, 2016 and February 9, 2016 regarding parameters for Operating Budget and Reserve policies and Long-Range Budget Policies. Council provided feedback in those sessions that staff has incorporated into the draft policies attached hereto.

During the February shirtsleeve meeting Council was advised that the creation and adoption of these policies would be a multi-stage process. Information gathering would occur in the February sessions. Staff would take the information received and draft policies. Council would then review and adopt the policies. Finally, Council would implement the policies in conjunction with the Fiscal Year 2017/18 budget.

We are now at the point of reviewing the draft policies and look to bring the final policies back to Council for adoption in October 2016.

Council asked that staff conduct an employee survey to determine employee views regarding reserves. Staff posted a survey for a one week period and received 132 responses. All but two respondents believe the city should maintain reserves. Respondents were evenly split between holding two months of reserves (our current policy) and three months of reserves in the General Fund. Respondents' highest priority for funding reserves was to fund a Pension Stabilization Reserve followed by funding General Fund Reserves. Information Technology, Other Post-Employment Benefits and Facilities Replacement reserves were equally ranked behind Pension Stabilization and General Fund Reserves. Vehicle Replacement reserves were the lowest priority option. A final open-ended question about staff ideas for fiscal sustainability was also included in the survey. Attached are the responses received.

FISCAL IMPACT: None at this time.

FUNDING AVAILABLE: Not applicable.

Jordan Ayers
Deputy City Manager

Attachments

APPROVED: _____
Stephen Schwabauer, City Manager

Employee comments to survey – August 2016

Question: What ideas do you have to improve fiscal sustainability in the City?

Encourage people who work in various types of City employment to share ideas to improve their departments...no matter their level. The people who do, know.



I believe the City is doing the best they can without seriously sacrificing employee morale while maintaining minimal staffing levels.



We need to prepare to be a tourist destination.



New businesses and new housing get an extra tax to assist with going towards Calpers, public safety, maintenance.



Let Lodi keep growing with new homes and businesses let the wine industry keep growing make Lodi a destination like a waterpark and hotels and a bowling alley and restaurants like black bear diner and Bring in Trader Joe's maybe think about Using some of the land that the city owns by that I five freeway to build a solar panel park to offset energy costs



Look at outsourcing costs such as vehicle maintenance and gas purchase at outside entities such as Kludt. We pay an incredible amount of monies to sustain MSC.



Reduce the pay for department heads. The gap between employees and department heads is too much.



Outsource vehicle maintenance, oil changes and repair. Charge commercial convalescent facilities for non-life threatening medical responses (e.g. patient has fallen out of bed.) Contract with ambulance/paramedic companies to be first responders for medical emergency calls and have the Fire Department fight fires and do fire prevention. Have the Lodi school district do their job in our community and have them teach after school reading, computer classes and other classes for adults instead of the Library. Have schools take on the role of providing sporting activities in our community instead of the Recreation Department. Increase mental health and homeless services in the community – reduces crime in the long run. Re-think the bus system and make it totally free to increase ridership. I bet fares do not pay for operation and overhead. Gas tax revenue and revenue from car sales will continue to decline: Re-think our street and signalized intersection planning. Reduce deployment of future costly signalized intersections. Actively plan for more protected bike lanes with barriers and no car parking. Encourage the development of a bike only road between Lodi and Stockton.



(1) The purpose of reserves is for unexpected events and catastrophes, not for funding daily operations and routine, expected and predictable current-asset replacements (computers etc). With the quantities that exist in an enterprise of this scale, a certain level of replacements and maintenance can be assumed every year, and can be accurately budgeted for as a line-item in the annual budgets. (2) There needs to be a serious look at why the general fund takes in vastly more revenue than other cities do, on account of annual 9-figure enterprise-fund transfers and PILOT's, and yet is in such worse shape than other cities who don't get these windfalls. (3) The cost of the new firehouse raises a lot of questions. The departments who sacrifice greatly of their own needs, to

provide large windfalls to the general fund, have to get by on vastly inferior facilities; why shouldn't the recipients? Implementing this mindset might go a long way to achieving fiscal sustainability.



build a parking structure for hospital parking charge a monthly fee have more events that bring in visitors



Invest in energy efficiency. i.e. solar energy, fuel efficiency vehicles etc.



1. Voluntary work day furlough, one per month, for interested employees who would not mind an extra day off, or make it a mandatory work furlough day, one per month, to save the city additional payroll costs.



Stop giving raises up upper management. The income gap between management and regular employees has increased greatly over the past decade. Stop paying City Council's retirement. Get more control over Police and Fire retirement. Take away longevity pay for police and fire. More engineering needs to be done in house instead of using consultants. Sometimes the City receives plans from consultants that are useless. Then the City ends up doing the work themselves for the project. Investigate DeBenedetti Park and how much we paid for that project. Then inquire the engineers/ surveyors how much as actually use their plans. There's too much junk spending to go into detailing here.



Why set on money, and make part time workers suffer with poor wages. As long as the big money maker have the cash and benefits who care about the rest. Part time workers are expected to do full time work on part time hours and money. Rainy day funds are a joke.



Close Hutchins Street Square. Reign in Public Safety retirement. That's the only reason people want those jobs any more.



Cut backs on public transportation



improve spending practices.



Get more businesses into the city to help increase revenue from taxes.



-Continue efforts to bring new businesses to Lodi and keep jobs at home. Enterprise-friendly policies that limit taxes, reduce unnecessary regulations and local government processes, and ultimately allow businesses to grow and thrive. - Stop abuse of employee privileges to purchase clothing, replace tools that are said to be lost or stolen by closer monitoring, increasing accountability, and improving processes. -Ensure field employees are making good use of time by closer monitoring, increasing accountability, and improving processes. -Increase accountability for contractors who bid low with the intention of adding change orders and milk projects and prolong their duration.



Sound investments



Always include future maintenance expenses when budgeting for new facilities or other infrastructure.



Involve knowledgeable, private sector/citizens in labor/retirement negotiations-those who are forced to pay should at least have a seat at the negotiations table. All workers comp claims should be investigated/negotiated/approved by outside agency. Should Fire respond to medical emergencies? I ranked Info Tech first because I do think we need to better protect against cyber-threats which could be very costly.



that is the question!



Insist that Mid-Managers use their leave balances instead of coming and going at will. By doing this the City will have less they need to cash out at the employees retirement.



Builder permit fees to fund public safety and parks. Property tax increase to fund public safety. A arrest/booking fee charged to those arrested, which is allowed by law (fee charged is limited to the cost of employee wage and care of arrestee). This has been done by several California cities.



If possible more staff in departments to help work load for current staff to get more done. More fundraising efforts more revenue generating opportunities



Directors should pay more attention to preventable spending done by managers and supervisors. Many expenses are preventable or not needed.



The City really needs to review how they conduct business as a whole. There are many internal procedures or processes that create bottlenecks, thus increasing staff time and reducing productivity. For example, the permit process through public works takes an extremely lengthy period of time compared to other municipalities. Why? The contract routing process is entirely inefficient and delays contracts from being executed in a timely manner - especially if one person is "out" for any length of time. If internal processes were evaluated for efficiency, it is possible to improve city-wide customer service levels and satisfaction, increase staff productivity (more bang for your buck), reduce redundant and/or outdated practices and reduce wasteful spending on consumables. When the City de-centralized purchasing to eliminate the cost of a position, did they determine how much it would increase costs on the departments? Not many staff are "frugal" (it is a known fact that people spend recklessly when it's not their own money, regardless of the control mechanisms in place) so it begs the question how much spending increased with the de-centralization of purchasing? Even by centralizing all IT purchases and office supplies, it could save the City quite a bit of funds and prevent a printer on every desk (which requires \$500 worth of toner per printer). An example of how this would work: The City should use the warehouse to store and order all office supplies and the departments can submit an internal requisition/request for supplies. The warehouse can then bill back the department for the cost. This will ensure all office supplies are leveraged purchases and prevent unnecessary purchases of items. Same with IT - if all purchases were done by IT, it not only would ensure all departments are in compliance with the "city standard" of IT equipment, but there won't be a "printer on every desk". For example, say there are 100 personal printers City-wide, each requiring \$500 worth of toner per year. That's \$50k per year being spent on toner. Paper - does each department buy the same paper? I'm betting some buy expensive paper, some buy cheaper paper, but the cost of paper adds up. If the City strategically sourced items all departments used, it would save the City thousands of dollars each year. If the City reviewed the meal reimbursement limits and lowered them, there would be savings as well. No one "needs" to spend \$20 on lunch, nor do they "need" \$40 for dinner, however, most staff who attend training and receive the allowance will spend every single penny (when they otherwise wouldn't) because it's not their money being spent. If the City lowered the amounts to \$10 for breakfast, \$15 for lunch and \$20

for dinner (all of which are reasonable), it could have the potential to reduce City costs by thousands. And finally, during the budget process, the City should require all departments to come in at year end with a minimum of 5% savings, meaning they are given their target, but are not allowed to spend all of it. This will force departments to be creative with existing resources and reduce wasteful spending. The extra funding should be put towards the City's reserves each year as "departmental contribution" - or even create a new pot of funding for the 5% so that it can go towards other City objectives (like paying down the PERS debt). The City could also benefit from paying down the PERS debt by working with them on a discounted rate (if we're not already).

Lighten/shorten requirements on purchasing and contract process. The process loses too many man hours. Have a meeting with those that go through the process to find a quicker way.

1) Maintain efforts to retain and develop Lodi businesses that generate sales tax dollars. 2) Filling any position is expensive on many levels. Do not feel pressured to fill vacant Public Safety or other positions.

Cut back overtime for PD and Fire. Limit the amount of overtime all departments are allowed to take and instead of pay, offer Comp leave.

Staffing levels and work performed. Look for those who are getting paid but not doing the work.

Parking meters / TOT increase / Measures R & S/ maintain lean workforce / gradual outsourcing of lower skilled positions

Infrastructure maintenance needs to be high on the list to avoid unforeseen costs and to maintain system reliability.

items such as accrued sick and vacation should not be unfunded. They, or at least a portion of the amount, should be placed in a fund as accrued.

City tree crew that will work for streets, EUD and parks.

set aside one time revenues and one time operation savings to fund above reserve programs. Raise TOT to 9%. Explore lower cost health care programs. Reduce Health Care opt out amount.

There are never-ending demands on funding - perhaps a special assessment by way of a tax initiative to specifically fund reserve targets - which sunsets once the target is reached, or pursuing a special tax initiative to retire debt.

More revenue generating programs in the city. Recruit large retailers by offering property tax deferments. Recruit industry to utilize Lodi's services (AMGEN, Hollywood movie production, etc.) Privatize traditional government services such as park maintenance and vehicle maintenance.

Hard to rank those items above as they are all important. I would continue to work on economic development and new downtown business endeavors. Also revitalizing our sports facilities and sports programs to attract more tournament opportunities which would help boost our local economy. As they say "Build it and they will come"



Possibly cost sharing with other cities for certain aspects of public safety



Increase city ord violations by 10%. Add a fee to each Grape Bowl/Fairgrounds ticket. Have each department save 5% (or whatever figure) incrementally by 2020. Let the department decide how to save the money. Hire more retired annuitants. Hire paid student assistants in whatever field their college education directs them.



Stop spending money on art in public places. Let philanthropists take care of that. Did we really need a gateway at Lodi and School?



We need to continue to push tourism, it should be one of the Cities top priorities.



Privatization of any service such as park maintainance that can be contracted for much less money.



Evaluate some of the positions @ the top of our pay scale and make sure they are still necessary. If they are necessary, they should get reviews just like the rest of the employees by their superiors.



Charge new development the cost of providing the incremental increase in service needed.



test repsonse

City of Lodi

Budget and Fiscal Policies

Adopted October 19, 2016

1. Purpose

The City's primary financial objective is to maintain the fiscal stability of the organization. The purpose of this policy is to establish guidelines for budget development, administration, and management as well as outline the City's fiscal policies in regard to cost recovery of various programs, target reserve levels in all funds and funding mechanisms for various programs.

2. Budget Development

The budget will reflect the goals and priorities of the Council each year and make the best use of available funding within those goals and priorities. While goals and priorities may change from year to year, some basic tenets will apply to all budgets. Those tenets are reflected below.

- A. The General Fund budget will be balanced each year, without the use of reserves. Current year revenues will support current year expenditures.
- B. One-time revenue will be used to fund one-time expenditures or be placed in reserves. One-time revenue will not be used to fund on-going operations.
- C. Annual budgetary savings will be used to fund one-time expenditures or be placed in reserves.
- D. Funding for the Vehicle Replacement Fund shall be based upon annual depreciation schedules for vehicles and amounts will be reflected in departmental budgets.
- E. Funding for the Other Post-Employment Benefits (OPEB) Fund shall be based upon the Actuarial Required Contribution shown in the actuarial report and charged to fund based upon ratio of full time positions.
- F. Funding for the Pension Stabilization Fund shall be based upon the ratio of annual budgeted pension costs by fund.
- G. Funding for the Information Technology (IT) Replacement Fund shall be based upon the replacement cycle for equipment contained in the fund.

H. Budgetary allotments for OPEB, Pension Stabilization and IT Replacement shall be reflected in the Non-Departmental Organization Unit for all General Fund units.

- a. Special Revenue, Enterprise and Internal Service funds will reflect budgetary allotments for these items within their respective funds.

I. Fixed Assets

- a. Capital purchases of \$10,000 or more, with a three year useful life, will be capitalized.
- b. Infrastructure additions or new construction of \$10,000 or more will be capitalized.
- c. Vehicle purchases of any amount will be capitalized and useful lives will be determined based upon the Government Finance Officers Association Best Practices guidelines.
- d. Straight line depreciation will be used for all depreciable assets.

J. Library

- a. The Library is primarily funded through a transfer from the General Fund. Council will set the level of funding each year based upon available General Fund revenue.

K. Parks, Recreation and Cultural Services (PRCS)

- a. Recreation and Community Center Programs
 - i. The goal is to recover, on average, 40% of program costs from participants. Individual programs may be fully self-supporting while other programs may have a nominal cost recovery ratio.
- b. General Fund Transfer
 - i. The General Fund Transfer shall be determined by Council each year. The intent of the General Fund Transfer is to cover the costs associated with Parks Maintenance, PRCS administration, Debt Service and Hutchins Street Square Maintenance.

L. Community Development

- a. The Community Development Department should primarily be self-supporting through fee revenue.
- b. A General Fund Transfer, determined by Council each year, will be designed to support the value of the general information function that the department provides and support at least one-half of the costs associated with a Youth Outreach function designed to divert youth involvement in gang activities.

M. Enterprise Funds

- a. Enterprise funds will set fees and rates at levels that meet operating, debt service, capital and reserve needs.

N. Internal Service Funds

- a. Internal Service funds will set rates and charges at levels that will ensure full recovery of costs each year.

3. Budget Administration and Adjustment

The City Council is ultimately responsible to the public for the delivery and conduct of City services and facilities. Accordingly, the Council appropriates funds to ensure the delivery of services at the levels and in the priority established by Council. The legal level of budgetary control is at the department level.

A. City Manager

The City Manager, as the chief administrative officer, provides staff with general direction in the development and formulation of the City Manager's budget recommendations to Council. This includes: evaluating and assessing current and anticipated issues facing the City; determining the demand for services and facilities; identifying the concerns of the citizenry; assessing the current and projected financial condition of the City; and determining the final staffing recommendations.

B. Deputy City Manager/Internal Services Director

The Deputy City Manager/Internal Services Director, as the chief financial officer, is responsible for budget development and day-to-day administration of adopted budgets. This includes: developing and issuing the budget instructions and calendar; advising the City Manager on budget policies and issues, including

the recommended level of funding for each department within the General Fund; reviewing budget requests to ensure they are complete and accurate; preparing the preliminary budget recommendations for review by the City Manager; and publishing the approved budget, Capital Improvement Plan, and Budget in Brief documents.

C. Department Directors

Department directors are responsible for preparing their operating and capital budget requests in accordance with the City's budget instructions and managing their respective departments within their approved budget allotments.

D. Failure to Adopt a Budget

If the City fails to adopt the budget by July 1, the City Council may elect one of the following courses of action until passage of a budget and appropriation of funds: (1) Provide the City Manager with Continuing Resolution Authority to allow continued services at expenditure levels not greater than those in the prior year budget; or (2) Require staff to obtain prior approval for any expenditure (payment) of City funds.

E. Public Record

The budget document will be available on-line at the City's website (www.lodi.gov). Hard copies will be available for public review at the Lodi Public Library, City Hall and the Carnegie Forum.

F. Budget Adjustments

- a. City Council approval is required for any increase in appropriations.
- b. The City Manager and Deputy City Manager have the authority to adjust appropriations within a fund, so long as total appropriations within the fund do not increase.
- c. Department directors have the authority to adjust appropriations within their departmental funds, so long as total appropriations within the departmental funds do not increase.

4. Components of Fund Balance

- A. Governmental Accounting Standards Board Statement Number 54 – Fund Balance Reporting and Governmental Fund Type Definitions outlines the requirements to report fund balance for governmental funds in specific

classifications which create a hierarchy primarily based upon the extent to which a City is bound to constraints on the specific purposes for which the funds can be spent. Fund Balance consists of the following five categories:

- i. Non-spendable fund balance: amounts that cannot be spent because they are either (a) not in a spendable form (e.g., inventories or pre-pays) or (b) legally or contractually required to be maintained intact (e.g., endowment).
- ii. Restricted fund balance: amounts that can only be spent for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation (e.g., grants, gas tax, impact fees).
- iii. Committed fund balance: amounts that can be used for the specific purposes determined by formal action of the government's highest level of decision making authority. Committed fund balance can be changed only by the government taking the same formal action that initially created the commitment. (e.g., Council approved catastrophic or economic reserves).
- iv. Assigned fund balance: amounts that are intended to be used by the government for specific purposes. Intent can be established by either the governing body or delegated to a City official. (e.g., amount of unassigned fund balance intended to be used to pay for future salary and benefit increases).
- v. Unassigned fund balance: the remaining amount of fund balance after all other fund balance classifications are accounted for and can be either positive or negative. Positive unassigned fund balance is available for any purpose.

5. Fund Balance Policies

A. Committing Fund Balance

- i. The City Council is the City's highest level of decision making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution or ordinance approved by the City Council at a City Council meeting. For reporting purposes, the resolution or ordinance approving, modifying or rescinding a fund balance commitment must be approved prior to the last day of the fiscal year for which the commitment is to be reported. The amount of the commitment may be determined in a subsequent period.

B. Assigning Fund Balance

- i. The City Council retains the authority to assign fund balance.

C. Hierarchy of Fund Balance Use

- i. When multiple categories of fund balance are available for expenditure, the City will spend the most restrictive funds first before moving down to the next category with available funds in the following order:
 1. Restricted
 2. Committed
 3. Assigned
 4. Unassigned.

6. General Fund Reserves

Maintaining reserves in the General Fund is critical to the successful and stable short- and long-term operations of the City. Adequate reserves in the General Fund ensure that the City is able to respond to emergencies and continue providing services to the citizens of Lodi. Adequate reserves also ensure that the City will have sufficient funds available to meet its operating, capital and debt service obligations.

A. Catastrophic Reserve

- i. A Catastrophic Reserve is established within the General Fund. This reserve is established to maintain the ability of the City to meet operational expenses during times of declared emergency or major catastrophe.
 1. It is recognized that during a time of emergency, the City will need to expend more resources than normal operations dictate to meet the community's need. In addition to an increased level of expenditure, the tax base of the City may be impaired after a major catastrophic event.
- ii. The amount of the Catastrophic Reserve shall be a minimum of 8% of annual General Fund revenues, including Operating Transfers.
- iii. The Catastrophic Reserve shall be exclusive of all other reserve amounts.

- iv. Council may draw on the Catastrophic Reserve only upon declaration of an emergency pursuant to the Lodi Municipal Code.
- v. If the Catastrophic Reserve falls below 5% of annual General Fund revenue, including Operating Transfers, the City Manager shall prepare a plan within three months of Council approval of the Comprehensive Annual Financial Report (CAFR) to restore the reserve balance to the 5% level within 12 months and the 8% level within 24 months.
- vi. The Catastrophic Reserve is not intended for normal unanticipated expenditures and shall be funded before all other committed General Fund reserves.

B. Economic Reserve

- i. An Economic Reserve is established within the General Fund. This reserve is established to maintain the City's economic viability and to meet seasonal cash flow needs.
 - 1. It is recognized that economic cycles can cause significant fluctuations in the revenue streams of the City and the recovery from down cycles can be prolonged and affect service levels to the community dramatically. The Economic Reserve is intended to assist the City in maintaining service levels while revenues recover from a down economic cycle.
- ii. The amount of the Economic Reserve shall be a minimum of 8% of annual General Fund revenues, including Operating Transfers.
- iii. The Economic Reserve shall be exclusive of all other reserve amounts.
- iv. Council may draw on the Economic Reserve only upon adoption of a resolution of the City Council.
- v. If the Economic Reserve falls below 5% of annual General Fund revenue, including Operating Transfers, the City Manager shall prepare a plan within three months of Council approval of the Comprehensive Annual Financial Report (CAFR) to restore the reserve balance to the 5% level within 12 months and the 8% level within 24 months.

- vi. The Economic Reserve is not intended to be used to encourage development through the expansion of infrastructure to undeveloped areas of the City and shall be funded once the General Fund Catastrophic Reserve is fully funded.

7. Special Revenue Fund Reserves

Maintaining reserves in the City's Special Revenue Funds is also critical to the successful and stable short- and long-term operations of the City. Adequate reserves in the Special Revenue Funds, where appropriate, ensure that the City is able to carry out the purpose of the special revenue fund and ensure compliance with underlying laws and contractual provisions associated with the funds. Additionally, bond rating agencies often evaluate a City's General Fund financial resilience by looking at reserves that may be drawn from Special Revenue funds to help support General Fund activities.

A. Library

- i. Since the Library is primarily funded by a General Fund transfer, there is no need to duplicate reserves associated with the transfer amount within the Library Fund.
- ii. Reserves within the Library Fund should be maintained at a minimum level of 16% of annual Non-General Fund Transfer revenue.
 - 1. Any excess reserves not otherwise designated by Council may be returned to the General Fund annually for use as directed by Council.

B. Parks, Recreation and Cultural Services (PRCS)

- i. Since a significant portion of PRCS revenue comes from a General Fund transfer, there is no need to duplicate reserves associated with the transfer amount within the PRCS fund.
- ii. Reserves within the PRCS Fund should be maintained at a minimum level of 16% of annual Non-General Fund Transfer revenue.
 - 1. Any excess reserves not otherwise designated by Council may be returned to the General Fund annually for use as directed by Council.

C. Community Development

- i. The Community Development Fund is primarily self-supporting from fee revenue associated with development activities. The activities and financing of this fund are subject to wide fluctuations based upon the state of the development economy. Many of the fees assessed are collected ahead of services being provided. In the event of an economic downturn, the fund will have collected fees for services that have not yet been provided. As such, it is prudent to carry a large reserve to recognize that the reserve represents services that have not yet been provided.
- ii. Reserves within the Community Development Fund should be maintained at a minimum level of 50% of annual operating expenses, including transfers.

D. Vehicle Replacement

- i. Reserves in the Vehicle Replacement fund should be maintained equal to the accumulated depreciation of the vehicles in the fund.

E. Information Technology Replacement

- i. Reserves in the Information Technology Replacement fund should be maintained equal to the accumulated depreciation of the equipment in the fund.

F. Other Special Revenue Funds

- i. All reserve balances in the following funds are Restricted by the terms of the funds:
 1. Streets
 2. Transportation Development Act
 3. Community Development Block Grant
 4. Debt Service
 5. Public Safety Special Revenue
 6. General Fund Capital Outlay
 7. Parks Capital Outlay
 8. Vehicle and Equipment Replacement

8. Enterprise Fund Reserves

Maintaining reserves in the City's Enterprise Funds is also critical to the successful and stable short- and long-term operations of the City. Adequate reserves in the Enterprise Funds ensures that the City is able to carry out the purpose of the fund and ensures compliance with underlying laws and contractual provisions associated with the funds. Among other metrics, bond rating agencies review compliance with reserve policies in determining credit ratings.

A. Electric Utility

- i. The City Council separately adopts a reserve policy for the Electric Utility and reviews the components of the policy every three years. As part of the annual budget process, Council is apprised of the level of reserves desired under that policy.

B. Water Utility

- i. The City Council has adopted a financial model for the Water Enterprise that incorporates a reserve target of 25% of Operating Expenses.
- ii. Additionally, all funds collected in relation to PCE/TCE rates or settlements are restricted to use solely for the mitigation and remediation of those pollutants.

C. Wastewater Utility

- i. The City Council has adopted a financial model for the Wastewater Enterprise that incorporates a reserve target of 25% of Operating Expenses.

D. Transit

- i. All reserve funds in the Transit Enterprise are restricted as to use solely for transit purposes.

9. Internal Service Fund Reserves

Maintaining reserves in the City's Internal Service Funds demonstrates fiscal accountability and financial prudence. Adequate reserves in the Internal Service Funds ensure that the City has set aside sufficient funds to meet the future obligations it has committed to provide to its employees. Additionally, bond rating agencies review these funds and look favorably upon entities that are funding the long-term liabilities represented in the City's Internal Service Funds.

A. Benefits Fund

i. Other Post-Employment Benefits (OPEB)

1. Reserves equal to the annual pay-as-you-go expense should be held in reserve locally.
2. Additional funds may be held in a third-party trust.

ii. Long Term Disability

1. The City is self-insured for a long-term disability program. Reserves equal to three times the annual expense should be held locally.

iii. Pension Stabilization

1. Reserves should be set aside to amortize the unfunded pension liability over, at most, a 30-year period.
2. Funds may be held locally or in a third-party trust.

B. General Liability Insurance Fund

- i. Reserves equal to a minimum of three times the Self-Insured Retention level should be held locally.
- ii. Funds above the minimum reserve level may be retained in this fund as a means of mitigating future program cost increases, rebated to the paying funds or transferred to other funds at Council discretion.

C. Workers Compensation Fund

- i. Reserves, at a minimum, equal to the 70% confidence level shown in the annual actuarial report should be held locally.
- ii. Funds above the minimum reserve level may be retained in this fund as a means of mitigating future program cost increases, rebated to the paying funds or transferred to other funds at Council discretion.

D. Fleet Maintenance Fund

- i. Reserves equal to a minimum of 16% of Operating Expenses shall be held in the Fleet Maintenance Fund.

10. Capital Improvement Plan

The City is committed to ensuring that all of its assets are operated, maintained and replaced in a manner that is the most prudent method of maintaining the public stewardship of those assets. To that end, the City will prepare and update annually a Capital Improvement Plan (CIP) that encompasses those assets and looks out over a five year lifespan. The first year of the five year plan will be the current budget year. The Internal Services Department will be responsible for gathering the data for inclusion in the plan.

A. CIP Projects

Construction projects that are expected to cost \$10,000 or more should be included in the CIP. Projects will be a combination of projects that repair, replace or enhance existing facilities, equipment or infrastructure and projects that expand or add to the City's existing fixed assets. Vehicles and equipment (rolling stock) are not to be included in the CIP.

B. CIP Appropriations

Approval of the CIP and the projects contained within it does not constitute appropriation of the funds necessary or designation of the funds necessary to complete the project. Annual appropriations for CIP costs will be included in the annual budget. Carryforward of funds on approved contracts will follow City year end procedures.

C. Elements of the CIP

Each project listed in the CIP will address the following items:

- a. project description
- b. project timeline
- c. anticipated funding sources
- d. estimated expenditures
- e. revenues and expenditures will be reflected by fiscal year over the five-year timespan of the CIP
- f. estimated annual on-going operating and maintenance costs

11. Encumbrance Accounting

Encumbrances represent commitments to contracts not yet performed and orders not yet filled. They are used to control expenditure commitments for the year and to enhance cash management. Encumbrances do not represent expenditures for a period, only a commitment to expend resources. As a contract is completed, the budgetary encumbrance control accounts are liquidated or reduced and the actual expenditure is recorded.

A. Lapsing Appropriations

- a. General Fund – all encumbered funds, except those related to a fixed-asset purchase, lapse at the end of each fiscal year.
- b. Capital Projects – encumbered funds associated with construction contracts do not lapse. However, encumbered funds associated with staff costs on construction projects do lapse and should be re-appropriated each fiscal year.

12. Review and Update

These policies will be in place for the fiscal year 2017/18 budget. These policies will be reviewed and updated every two years in odd numbered years in conjunction with the approval of the annual budget. The next review cycle will be in conjunction with the fiscal year 2019/20 budget.

Budget and Fiscal Policies

City Council Shirtsleeve
September 13, 2016

Process

- ▶ Introduce concepts and gather input
 - February 2016
- ▶ Introduce draft policies
 - Today
- ▶ Adopt draft policies
 - October 2016
- ▶ Implement policies
 - Beginning with FY 2017/18 budget or earlier

History

- ▶ Shirtsleeve session on February 2, 2016 gathering information/direction/input on Operating Budget and Reserve Policies
- ▶ Shirtsleeve session on February 9, 2016 gathering information/direction/input on Long Range Budget Policies

Today

- ▶ Introduce draft comprehensive Budget and Fiscal Policies
- ▶ Gather further information/direction/input on policies

Employee Survey

- ▶ 4 question survey
- ▶ 132 responses
 - Should the City have reserves?
 - How much reserve should the City have?
 - Priority for reserves
 - Suggestions for maintaining fiscal sustainability

Should the City have Reserves?

- ▶ 130 responses
- ▶ Yes-128
- ▶ No-2

What level of reserves should the Council retain in the General Fund?

- ▶ 132 responses
- ▶ 0%—2
- ▶ 8% (one month of operating costs)—15
- ▶ 16% (two months of operating costs)—50
- ▶ 25% (three months of operating costs)—51
- ▶ 50% (six months of operating costs)—11
- ▶ More than 50%—3

Rank the priority of funding reserves

- ▶ 132 responses
- ▶ Pension Stabilization Reserve–71%
- ▶ General Fund Reserve–47.25%
- ▶ Other Post–Employment Reserve–31.49%
- ▶ Information Technology Reserve–23.84%
- ▶ Facilities Replacement Reserve–19.53%
- ▶ Vehicle Replacement Reserve–5.47%

(ranked as number 1 or 2 priority)

Basic Guidelines

- ▶ **Balanced Budget**
 - Current year revenues support current year expenses
- ▶ **One time money will fund one time expenditures or reserves**
 - One time money not to be used for Operations
- ▶ **Annual budgetary savings to be used for one time expenditures or reserves**
- ▶ **Transfers to Fleet Replacement Fund based upon annual depreciation of vehicles**
 - Reflected in departmental budgets

Basic Guidelines

- ▶ Transfers for OPEB based upon actuarial report and ratio of full time positions
- ▶ Transfers for Pension Stabilization based upon budgeted pension cost by fund
- ▶ Transfers for IT Replacement based upon replacement cycle
- ▶ OPEB, Pension Stabilization and IT Replacements reflected in Non-Departmental budget for General Fund units
 - Special Revenue, Enterprise and ISF carry their own transfers for these

Basic Guidelines

- ▶ Fixed Asset Capitalization
 - \$10,000 for Equipment
 - \$10,000 for Infrastructure
 - Capitalize all vehicles
 - Useful life based upon GFOA best practices
 - Straight line depreciation

- ▶ Library
 - Funded primarily by General Fund Transfer
 - Council set the level each year based upon available general revenue

Basic Guidelines

- ▶ Recreation and Community Center Programs
 - Target recovery ratio of 40% overall
- ▶ Other PRCS Programs
 - Parks maintenance is funded by General Fund Transfer
 - PRCS Admin, Debt Service, most HSS maintenance funded by General Fund Transfer

Basic Guidelines

- ▶ **Community Development**
 - Primarily self supporting
 - General Fund Transfer to cover value of information function
- ▶ **Enterprise Funds**
 - Fees and rates set at levels to meet operating, debt service, capital and reserve needs
- ▶ **Internal Service Funds**
 - Charge out all costs each year

Budget Administration

- ▶ Council responsible for approving all initial and increased appropriations and all position additions/deletions
- ▶ City Manager/Deputy City Manager can approve movements within a fund
- ▶ Department directors can approve movement within their department

Reserves–GASB Reporting

▶ Reserve Categories

- Non–spendable
 - Non–cash or legally required to be kept intact
- Restricted
 - Externally restricted
- Committed
 - Council approved by resolution or ordinance
- Assigned
 - Council approved or may be delegated
- Unassigned
 - Residual amount after all of above are accounted for

Reserves–General Fund

▶ Catastrophic

- Minimum of 8% of Revenue (including Transfers)
- Available upon Council Declaration of Emergency

▶ Economic

- Minimum of 8% of Revenue (including Transfers)
- Available by Council Resolution

Reserves–Special Revenue Funds

- ▶ **Community Development**
 - 50% of Operating Expenditures
- ▶ **Parks, Recreation and Cultural Services**
 - 16% of Non–General Fund Transfer Revenue
- ▶ **Library**
 - 16% of Non–General Fund Transfer Revenue
- ▶ **Vehicle Replacement**
 - Equal to Accumulated Depreciation of vehicles
- ▶ **IT Equipment Replacement**
 - Equal to Accumulated Depreciation of equipment

Reserves–Special Revenue Funds

- ▶ Debt Service
 - Per bond covenants
- ▶ All reserves are restricted in the following:
 - Streets
 - TDA
 - CDBG/HOME
 - Public Safety Grants
 - General Fund Capital Outlay
 - Parks Capital Outlay

Reserves–Enterprise Funds

- ▶ Electric Utility
 - Per separate adopted policy
- ▶ Water
 - 25% of Operating Expenses
 - All PCE/TCE funds restricted
- ▶ Wastewater
 - 25% of Operating Expenses
- ▶ Transit
 - All reserves restricted

Reserves–Internal Service Funds

▶ Benefits

- OPEB
 - 1X annual pay-as-you-go expense
 - Consider establishing a third party trust
- Long Term Disability
 - 3X annual expense
- Pension Stabilization
 - Consider funding locally or with a third party

▶ Insurance

- General Liability
 - 3X Self Insured Retention
- Workers Comp
 - 70% Actuarial Confidence Level Minimum

Reserves–Internal Service Funds

- ▶ Fleet Maintenance
 - 16% of Operating Expenses

Capital Improvement Plan

- ▶ 5 year timespan
 - Projects over \$10,000
 - Rolling stock excluded
- ▶ CIP approval does not commit funds
 - Funding approved annually in budget
- ▶ Elements of CIP
 - Description
 - Timeline
 - Funding sources
 - Expenditures
 - Revenue and expenditures by FY
 - On-going operating & maintenance costs

Questions?