



**DATE:** June 13, 2017

**CATEGORY:** New Business

**DEPT.:** City Manager's Office/Finance and Administrative Services

**TITLE:** **Adopt a Resolution Modifying City Council Policy A-11, Financial and Budgetary Policy**

### **RECOMMENDATION**

Adopt a Resolution Modifying City Council Policy A-11, Financial and Budgetary Policy, to be read in title only, further reading waived (Attachment 1 to the Council report).

### **BACKGROUND**

The City Council Financial and Budgetary Policy A-11 (Policy A-11) was originally adopted on December 11, 1976 and was last modified on March 27, 2007. Policy A-11 establishes City policies related to budget, revenues, expenditures, reserves, capital improvements, cash management and investments, accounting, debt management, and risk management.

On April 27, 2017, staff presented the Narrative Budget Report to the City Council and recommended a strategy to reduce the City's unfunded pension liability. Imbedded in the strategy is the recommendation to modify the funding level of the General Fund and Compensated Absences Reserves, which requires modifications to Policy A-11. The Council majority supported the strategy presented at the Narrative Budget Study Session.

### **ANALYSIS**

Staff reviewed the existing Policy A-11 to incorporate the direction provided by Council as follows:

1. Modify the General Fund Reserve level from 25.0 percent to a range between 20.0 percent to 25.0 percent of budgeted General Operating Fund Expenditures, net of budget savings.

2. Reduce the Compensated Absences Reserve from being fully funded to a minimum funding level of 80.0 percent of the accrued liabilities of the City for compensated absences.

In addition to the changes proposed to reserves as discussed with the City Council at the Narrative Budget Study Session on April 27, 2017, staff recommends additional updates to the policy as follows:

1. Addition of the Budget Contingency Reserve—This reserve was reestablished in Fiscal Year 2008-09 in response to the Great Recession. This reserve may be used for such things as the transitioning of positions to be eliminated, the phasing out of certain expenditures, funding for benefit changes, or revenue declines.
2. Addition of the Earned Lease Revenue Reserve—Google prepaid \$30.0 million as rent for the initial approximately 52-year lease term, effective April 1, 2011, of a portion of the Charleston East site owned by the City. This reserve is intended to accumulate the rent as it is earned so that the \$30.0 million principal balance will be available at the end of the lease term.
3. Deletion of the Child Care Commitment Reserve—The Child Care Commitment reserve was established for the repayment to the Packard Foundation for the financing of the Child-Care Center. The Packard Foundation loan was repaid in January 2016 and the balance in the reserve will be used for low-income subsidies for the remaining initial term of the current contract ending June 30, 2019, as approved by Council on December 6, 2016. Once the balance is disbursed, the reserve will no longer be needed and therefore, it is recommended to be deleted from Policy A-11.

Other cleanup and minor modifications are identified by underline and strikeout in the attached copy of Policy A-11 (Exhibit A to the resolution).

### **FISCAL IMPACT**

The modifications to reserve funding levels in Policy A-11 reduces the funding that would otherwise be necessary to bring reserve levels to policy levels and will provide one-time funding for the CalPERS funding strategy to contribute towards the City's unfunded pension obligation.

**ALTERNATIVES**

1. Decline to accept the proposed changes.
2. Propose other revisions to the policy.

**PUBLIC NOTICING** – Agenda posting.

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546-06-13-17CR-E

Attachment: 1. Resolution with Attached Strike-Out Version of Policy A-11