

# NOTICE OF SPECIAL MEETING

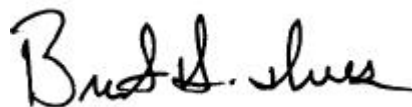
Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council** is hereby called for:

**Date/Time:** **Tuesday, August 19, 2014, 6:00 p.m.**  
(or as soon thereafter as possible)

**Location:** **Council Chambers, City Hall**  
**333 Civic Center Plaza, Tracy**

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy City Council on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

1. Call to Order
2. Roll Call
3. Items from the Audience - *In accordance with Procedures for Preparation, Posting and Distribution of Agendas and the Conduct of Public Meetings, adopted by Resolution 2008-140 any item not on the agenda brought up by the public at a meeting, shall be automatically referred to staff. If staff is not able to resolve the matter satisfactorily, the member of the public may request a Council Member to sponsor the item for discussion at a future meeting.*
4. DISCUSS AND PROVIDE DIRECTION REGARDING THE CITY'S GENERAL FUND RESERVE POLICY
5. Adjournment



Mayor

## **August 14, 2014**

The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6105), at least 24 hours prior to the meeting.

Any materials distributed to the majority of the Tracy City Council regarding any item on this agenda will be made available for public inspection in the City Clerk's office located at 333 Civic Center Plaza, Tracy, during normal business hours.

AGENDA ITEM 4

REQUEST

**DISCUSS AND PROVIDE DIRECTION REGARDING THE CITY'S GENERAL FUND RESERVE POLICY**

EXECUTIVE SUMMARY

As part of the FY 2014/15 City budget workshop discussion, Council directed staff to explore alternative General Fund Reserve policy approaches, including new reserve designations. This report provides General Fund Reserve policy options to support the City's long-term fiscal sustainability efforts. The recommended new reserve structure includes the establishment of three General Fund Reserve designations: a General Fund Contingency Reserve, General Fund Economic/Budget Stability Reserve, and General Fund "Measure E" Mitigation Reserve.

DISCUSSION

The Government Finance Officers' Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance (City reserves) that should be maintained in the General Fund. The purpose of a reserve is to mitigate the effect of unanticipated situations including natural disasters and severe unforeseen events. Reserves also provide the City with stability when the economy fluctuates, providing time to develop a transition plan and make organizational and service changes in response to the City's financial situation.

The City of Tracy has a General Fund Reserve policy that requires a reserve level of 20% of General Fund expenditures, including recurring transfers out. The City has only one designated reserve - the Reserve for Economic Uncertainty. This reserve was established to bridge budget shortfalls due to changes in the economy. The City's policy also automatically allocates year-end excess revenue to the Reserve for Economic Uncertainty.

As of June 30, 2013, the City's total General Fund balance is \$28.9 million; of that amount, approximately \$27.5 million is unassigned, and includes the City's Reserve for Economic Uncertainty (\$9.9 million). The unassigned fund balance of \$27.5 million represents 55% of total General Fund expenditures for FY 2013/14. Proposed FY 2014/15 General Fund unassigned fund balance is estimated to be \$34.3 million, which includes projected year-end excess revenue.

For purposes of long-range fiscal planning and continued fiscal health, it is recommended that the Council consider modifying its current reserve policy by establishing three new General Fund reserves designations that would replace the City's existing reserve structure. The following section discusses the proposed reserves.

## **PROPOSED GENERAL FUND RESERVE DESIGNATIONS**

It is recommended that the City adopt a General Fund Reserve policy that formally establishes fund balance (Reserves) with the following designations:

### ***General Fund Contingency Reserve***

The Contingency Reserve funds help mitigate the effects of unanticipated situations such as natural disasters and severe, unforeseen events. The Contingency Reserve is to be established with a targeted goal of 20% of the General Fund's adopted annual budget for expenditures, including recurring transfers out.

As part of the budget adoption process, the City Manager would evaluate the City's financial condition and make a recommendation as to whether a contribution should be made to the Contingency Reserve, or if reserve funds should be used to address a particular need. Use of the Contingency Reserve must be approved by the City Council and repaid over a period to be determined by the City Council at the time of usage approval, with a target repayment period of no more than three years.

### ***General Fund Economic/Budget Stability Reserve***

The Economic/Budget Stability Reserve is intended to offset revenue/expenditure uncertainty while stabilizing service levels through economic cycles. The long-term use of this reserve is determined by estimating the level of financial risk associated with the following three areas of uncertainty:

1. **Revenue risks.** Economically sensitive revenues that fall short of budget projections could cause deficits. Transitional funding may be necessary to bridge the impact of reductions in major revenues due to local, regional, state, and/or national economic changes.
2. **State budget risks.** In the recent past, the State has implemented budget solutions that legislatively reallocated intergovernmental revenues from local jurisdictions to the State (in the absence of guarantees or constitutional protection of these revenues). These reallocations have included property taxes, sales taxes, gas taxes, grants, and reimbursements.
3. **Uncontrollable costs.** The City budget includes several ongoing, uncontrollable costs, including employer pension contributions, healthcare premiums, and fuel/utility expenses that are beyond the City's control. Further changes in PERS rates due to investment performance and actuarial assumptions, and/or healthcare may result in the need for supplemental funding.

The Economic/Budget Stability Reserve is to be established with a targeted goal of 10% of the General Fund's adopted annual budget for expenditures and recurring transfers out. The City Manager will assess the City's financial condition and recommend whether a contribution should be made to the Economic/Budget Stability Reserve, or if reserve

funds should be used to stabilize the budget. As stated earlier, this action is done as part of the annual budget adoption; however, these actions can be completed at any time the City Manager deems necessary.

Use of the Economic/Budget Stability Reserve must be approved by the City Council and repaid over a period to be determined by the City Council at the time of usage approval, with a target repayment period of no more than three years.

### ***General Fund “Measure E” Mitigation Reserve***

The “Measure E” Mitigation Reserve is to be used as bridge funding upon the sunset of the Measure E sales tax in FY 2016/17. This temporary reserve would be used over a multi-year period to mitigate the loss of revenue from the half cent sales tax and allow the City time to transition to the reduced revenue level.

The “Measure E” Mitigation Reserve is to be established with a targeted goal of \$7 million as this is estimated to be the peak revenue prior to the measure’s expiration in March 2015. As part of the annual budget adoption process, the City Manager would recommend whether a contribution should be made to the “Measure E” Mitigation Reserve, or if reserve funds should be used to supplant the budget.

All uses of the “Measure E” Mitigation Reserve must be approved by the City Council. The “Measure E” Mitigation Reserve is a one-time reserve; if the reserve will no longer be used for the purposes stated above, the unused funds should be returned to the General Fund and reserve closed.

### **USE AND REPLENISHMENT OF RESERVES**

As previously discussed in this report, use of any reserve must be approved by the City Council. Use of any reserve will require repayment to be determined by the City Council at the time of usage approval, with a recommended target repayment period of no more than three years. The City’s current General Fund Reserve policy does not have a replenishment requirement.

### **YEAR-END EXCESS REVENUE**

Under the City’s current policy, reported year-end excess revenue which results in General Fund reserves exceeding the required minimum threshold level (20%) is automatically allocated to the Reserve for Economic Uncertainty. Year-end excess revenue under the proposed reserves structure would remain in the City’s fund balance. As part of the annual budget adoption process, the City Manager would recommend whether the excess funds could be allocated to other reserves, or used as one-time funding with consideration given to economic development and/or capital projects.

### **NEW GENERAL FUND RESERVE STRUCTURE**

The chart below reflects the City’s current and proposed reserve structure based on projected FY 2014/15 reserve levels, excluding estimated year-end excess revenue:

Current Reserve Structure	Amount	Proposed Reserve Structure	Amount
<b>Ending Fund Balance</b>	<b>\$19M</b>	<b>Ending Fund Balance</b>	<b>\$9.2M</b>
Reserve for Economic Uncertainty (EU)	\$14.6M	Contingency Reserve <sup>1</sup>	\$11.6M
		Economic/Budget Stability Reserve <sup>2</sup>	\$5.8M
		"Measure E" Mitigation Reserve	\$7M
<b>Total Fund Balance<sup>3</sup></b>	<b>\$33.6M</b>	<b>Total Fund Balance</b>	<b>\$33.6M</b>

**CAPITAL AND ECONOMIC DEVELOPMENT FUNDING**

Most General Fund capital projects are funded through one time resources that are allocated from Fund 301. Rather than relying on one-time funds, it is recommended that through the annual budget process, Council consider making regular budget transfers from the General Fund to support the City's capital program. The regular budget transfers would be to Fund 301, and subsequently allocated to specific capital projects. One-time funding received during the fiscal year would remain in the City's unrestricted fund balance and as recommended by the City Manager could be used as a funding source to supplement various capital needs.

Funding for economic development was previously available through the City's Residential Specific Plan (RSP) Fund. Remaining funds in the RSP Fund had been used to support a wide variety of economic development activities, including financial incentives for retail anchor stores, Shop Local Campaigns, Hi-Tech Incentive Policies, and infrastructure improvements for new businesses. The RSP Fund has since been depleted and resources for economic development are limited. It is recommended that consideration be given through the annual budget process to fund high priority economic development activities. Fund balance as recommended by the City Manager could be used to support one-time investments that require a higher level of funding.

STRATEGIC PLAN

This agenda item addresses Goal 1 of the Governance Strategy to ensure fiscal sustainability through financial budgetary stewardship and meets Objective 1, which is to update the General Fund Reserve Policy.

FISCAL IMPACT

There is no fiscal impact associated with receiving direction to update the General Fund Reserve Policy.

RECOMMENDATION

It is recommended that Council consider and provide staff direction regarding the suggested General Fund Reserve policy options.

Prepared by: Interim Assistant City Manager, Jenny Haruyama  
 Approved by: Interim City Manager, Maria A. Hurtado

<sup>1</sup> The Contingency Reserve is to be established with a Targeted Goal of 20% of the GF Adopted Operating Expenditures and recurring Transfers Out.  
<sup>2</sup> The Economic/Budget Stability Reserve is to be established with a Targeted Goal of 10% of the GF Adopted Operating Expenditures and recurring Transfers Out.  
<sup>3</sup> Current General Fund Reserve Policy Requires Fund Balance to be 20% of GF Adopted Operating Expenditures.