

August 19, 2014, 6:00 p.m.

City Council Chambers, 333 Civic Center Plaza

Web Site: www.ci.tracy.ca.us

1. Call to Order – Mayor Ives called the meeting to order at 6:20 p.m.
2. Roll call found Council Members Manne, Rickman, Young, Mayor Pro Tem Maciel and Mayor Ives present.
3. ITEMS FROM THE AUDIENCE – None.
4. DISCUSS AND PROVIDE DIRECTION REGARDING THE CITY'S GENERAL FUND RESERVE POLICY – Jenny Haruyama, Director of Administrative Services, provided the staff report and power point presentation. 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 Fiscal Year 2013/14.

Proposed Fiscal Year 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, staff 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.

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

The General Fund Contingency Reserve fund helps 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 Council and repaid over a period to be determined by the Council at the time of usage approval, with a target repayment period of no more than three years.

The General Fund 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. 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 Council and repaid over a period to be determined by the Council at the time of usage approval, with a target repayment period of no more than three years.

The General Fund "Measure E" Mitigation Reserve is to be used as bridge funding upon the sunset of the Measure E sales tax in Fiscal Year 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 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 - Use of any reserve must be approved by the Council. Use of any reserve will require repayment to be determined by the 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.

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

Current Reserve Structure	Amount	Proposed Reserve Structure	Amount
Ending Fund Balance	\$19M	Ending Fund Balance	\$9.2M
Reserve for Economic Uncertainty (EU)	\$14.6M	Contingency Reserve ¹	\$11.6M
		Economic/Budget Stability Reserve ²	\$5.8M
		“Measure E” Mitigation Reserve	\$7M
Total Fund Balance³	\$33.6M	Total Fund Balance	\$33.6M

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. Staff 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.

Staff recommended that Council provide direction regarding the suggested General Fund Reserve policy options.

Mayor Pro Tem Maciel asked if Measure E is finite. Ms. Haruyama responded that was correct.

Council Member Manne asked if the required replenishment of reserves would not apply to Measure E. Ms. Haruyama responded no, it would apply to permanent reserves.

Mayor Ives asked if the proposal for the safety tower would come out of the \$9.2 million ending fund balance. Ms. Haruyama responded that was correct. Mayor Ives added part of the reason for the ending fund balance is because of Measure E. Mayor Ives asked if staff had an assumption of how long it is supposed to last. Ms. Haruyama responded it is a moving target but staff could provide an order of magnitude to help guide Council's decisions.

Robert Tanner asked for clarification on Measure E Fund Reserve and if the reserve would continue to be funded. Ms. Haruyama responded it depends on the City's fiscal situation. Ms. Haruyama stated there may not be a need to draw down and supplement budget.

Mr. Tanner stated Measure E is \$7 million, and asked if it could be \$10 million. Ms. Haruyama responded yes. Council would need to decide whether to use for operating funds or another use.

Mr. Tanner asked if the Mitigation Reserve for Measure E ends. Ms. Haruyama responded if the reserve is depleted, it is gone. The Measure E Mitigation Reserve is a temporary reserve.

Mayor Ives stated as years go by if there is a positive fund balance, the City will no longer need Measure E. Ms. Haruyama responded if it is not needed the funds would go back into the General Fund for Council to decide what to do with the funds.

Robert Tanner stated he did not see the difference between the Mitigation Reserve for Measure E and Contingency Reserve. Ms. Haruyama described the difference between the two reserves.

Mayor Ives asked if Council put \$7 million in the Measure E Mitigation Reserve, how boxed in would future councils be regarding how the money can be used. Ms. Haruyama responded future Councils are not boxed in as it is designed to be flexible.

Mayor Pro Tem Maciel stated Measure E sunsets in March of 2016. If there continues to be surplus as a result of Measure E, that \$7 million would increase. By the time Measure E sunsets other reserves are still going to be locked into 10% and 20%, but

the Measure E Mitigation Reserve, when Measure E sunsets, could be \$10 million. Ms. Haruyama responded if Measure E ends up creating excess revenue then Council can allocate that additional revenue. Council can put that in Measure E between now and sunset

Mayor Pro Tem Maciel asked if the \$7 million is based on most optimistic annual Measure E revenues. Ms. Haruyama responded yes for this current year. Mayor Pro Tem Maciel asked if once Measure E sunsets the City can be at an equal deficit as far as incoming revenue. Ms. Haruyama responded the year Measure E sunsets will be lower because the City is only getting $\frac{3}{4}$ of year.

Mayor Ives stated the 20% and 10% are the recommended or policy related amounts that Council would like to keep in reserves. If the reserves go below those reserve levels, the implications for the future Council are to try to get to that level. Ms. Haruyama responded that was correct. That is where the replenishment schedule comes in. The 20% and 10% are minimum reserve levels. Mayor Ives stated it is a recommended amount and Council needed clarity regarding why it is important to have 10% Contingency and 20% Economic Stability.

Council Member Manne stated he liked having the different buckets. Council Member Manne added he did not like the label of Measure E Mitigation Reserve as it is the same thing as Budget Stability Reserve. Council Member Manne further stated the Measure E Mitigation Reserve should be eliminated and put into the Economic Budget Stability Reserve. Council Member Manne added prior Councils did a good job of setting the minimum at 20% reserve level, but he would feel comfortable increasing reserve levels to 25% or 30%.

Maria Hurtado, Assistant City Manager, stated the other goal in addition to using the Measure E Mitigation Reserve as bridge funding is to start putting in the forefront of Council that Measure E is going to sunset. The \$7 million is what the City typically receives with Measure E. The intent is for a temporary reserve in order to transition when Measure E goes away

Mayor Pro Tem Maciel stated Measure E was intended to bridge a gap due to an uncertain economy. Mayor Pro Tem Maciel added he did not have a problem designating a reserve for that purpose. Council is declaring it will end and this is additional insurance policy.

Council Member Rickman asked if staff is looking for a way to identify the expenditures that can be cut to balance the budget without Measure E. Ms. Haruyama responded we can budget reserves into the operating budget to serve as bridge funding and at the same time be looking at opportunities to consolidate and reduce. They need to go hand in hand as one cannot be done without the other. Ms. Haruyama responded yes to Council Member Rickman's question.

Council Member Young stated Measure E is going away so that line will be eliminated as soon as that money has gone. Economic Budget Stability Reserve money will still be going into that fund once we get to the point of having excess revenues. Ms. Haruyama responded those amounts will be established at the 20% and 10% reserve levels, and once those levels are reached, Council will make a decision whether to keep it at the minimum and increase it, or allocate money for other uses.

Mayor Ives clarified Council's direction for staff to bring back a General Fund Reserve Policy for Council to adopt in October, 2014.

5. ADJOURNMENT – It was moved by Mayor Pro Tem Maciel and seconded by Council Member Manne to adjourn. Voice vote found all in favor; passed and so ordered. Time: 6:52 p.m.

The above agenda was posted at the Tracy City Hall on August 14, 2014. The above are summary minutes. A recording is available at the office of the City Clerk.

Mayor

ATTEST:

City Clerk