



Agenda Report

June 18, 2018

TO: Honorable Mayor and City Council/Successor to Pasadena Community Development Commission

THROUGH: Finance Committee

FROM: Finance Department

SUBJECT: APPROVAL OF COMMITMENT OF GENERAL FUND BALANCE FOR THE GENERAL FUND EMERGENCY CONTINGENCY COMMITMENT AND GENERAL FUND OPERATING RESERVE FOR FISCAL YEAR 2018

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3); and
2. Adopt a resolution approving the City of Pasadena General Fund Emergency Contingency commitment of \$35,512,050 and General Fund Operating Reserve commitment of \$11,437,350 from fund balance of the General Fund for Fiscal Year 2018.

BACKGROUND:

As recommended by the Government Finance Officers Association best practices and to meet City Council's strategic planning objective of fiscal responsibility and stability, the City has established fund reserve goals. Maintaining adequate and prudent levels of fund reserves mitigates current and future risks by protecting against reducing service levels or raising taxes or fees because of temporary revenue shortfalls, unexpected one-time expenditures, or natural disaster costs. Appropriate reserve levels are monitored by rating agencies and protect the City's bond ratings.

From fiscal years 2011 to 2014, the City Council approved a 10 percent commitment of General Fund Balance for an Emergency Contingency Commitment of the General Fund to be used for unforeseen emergencies such as the 2011 wind storm event. On August 15, 2011, the City Council approved enhancements to the City's Fund Balance

Policy which increased the Emergency Contingency Commitment to 20 percent after Fiscal Year 2014, with a phase-in plan if the pace of the economic recovery is slower than required to achieve the 20 percent goal in one year. Pursuant to City Council discussions on June 12, 2017 and preliminary Fiscal Year (FY) 2017 results, it was anticipated that there was sufficient surplus and unassigned fund balance to support the overall commitment of 20 percent, split between the General Fund Emergency Contingency (15 percent) and a General Fund Operating Reserve (5 percent).

The City's Fund Balance Policy implemented Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. GASB Statement No. 54 divides fund balance into five categories: nonspendable, restricted, committed, assigned, and unassigned. It also requires formal action by the City Council to commit fund balance annually, prior to fiscal yearend.

This action formally commits the full 15 percent FY 2018 General Fund Emergency Contingency Committed fund balance for \$35,512,050 and a reduced General Fund Operating Reserve of 4.83 percent or \$11,437,350. This reduction below 5 percent is based on budget discussions to utilize \$400,000 of the Operating Reserves for appropriation to the Colorado Street Bridge Capital Improvement Project. It is possible that additional needs may be identified and that City Council could utilize more of the Operating Reserve. If that is the case, the staff recommendation will need to be amended by the City Council action for this item and the City Attorney instructed to revise the attached resolution.

In order to qualify as committed fund balance, a stabilization commitment of fund balance must clarify the circumstances under which the funds may be utilized. These circumstances cannot occur routinely. Hence, the terms "extreme operational budget deficits" and "to mitigate the effects of major economic uncertainties resulting from events uncontrollable by the City" are used in the resolution to enact the Operating Reserve.

The combined commitment levels and percent of General Fund appropriations since the implementation of GASB Statement No. 54 are:

FY 2011	\$21,719,242	10.0%
FY 2012	\$21,584,326	10.0%
FY 2013	\$21,565,607	10.0%
FY 2014	\$20,266,176	10.0%
FY 2015	\$30,951,483	14.7%
FY 2016	\$33,451,483	15.3%
FY 2017	\$47,563,000	20.0% (15.0% plus 5.0%)
Recommended FY 2018	\$46,949,400	19.8% (15.0% plus 4.8%)

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced by the commitment of General Fund Balance for Emergency Contingency and commitment of General Fund Balance for Operating Reserve.

ENVIRONMENTAL ANALYSIS:

The proposed action has been determined to be exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061 (b)(3), the general rule that CEQA applies only to projects which have the potential for causing an significant effect on the environment. Where it can be seen with the certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Such is the case with the proposed commitment of funds to the General Fund Emergency Contingency, which does not propose any physical changes to the environment and does not involve any commitment to any specific project.

FISCAL IMPACT:

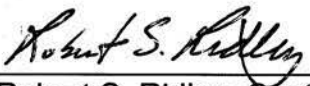
There is no direct fiscal impact as a result of this action, and this action will not have indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action. While there is no direct fiscal impact of committing fund balance and the amounts reported as total fund balance are not altered, the reporting of the individual components that make up total fund balance are changed.

Respectfully submitted,



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