

Agenda Report

August 15, 2011

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Director of Finance

SUBJECT: FUND BALANCE POLICY

RECOMMENDATION:

It is recommended that the City Council:

1. Approve the attached Fund Balance Policy and,
2. Approve a resolution modifying the Fund Balance Policy for the General Fund

BACKGROUND:

Periodic review of the City fund balance policies is a significant tool for maintaining fiscal responsibility and stability of City finances. Prudent fund balances also assist in maintaining the City's AAA rating. In 1999, City Council approved the Cash Management and Cash Reserve Policy. At that time, past policies and best practices were discussed, expanded, updated, and modified to include other funds. Periodically, staff brings forward the issue of fund balance/reserves for City Council consideration and direction. During the 2008 review, a recommendation was made to increase the General Fund reserves to 10% of budgeted appropriations with the adoption of the Fiscal Year 2009 budget.

In 2009, the Government Finance Officers Association (GFOA) updated its recommended best practices to stipulate that a formal policy establish the level of unrestricted fund balance that should be maintained in the General Fund. This policy should include a temporal framework and specific plans and trigger points for increasing or decreasing the level of unrestricted fund balance when the amount varies from the policy. While the adequacy of unrestricted funds in the General Fund should be assessed based on the City's own unique circumstances, GFOA recommends that the General Fund maintain, at a minimum, no less than two months of operating revenues or operating expenditures, depending on which measure is more predictable. This is about 16.67 percent of General Fund expenditures.

Fund balance policies are designed to focus on the City's ability to meet its short-term and long-term obligations. The policies are designed as a plan to assist the City in addressing significant swings in cash flows due to economic cycles and unanticipated emergencies.

The City operates over 150 different funds in providing municipal services. The General Fund contains the greatest cross-section of municipal services and is the focus of most fund balance policies. The additional funds included in the attached fund balance policy document were selected due to their significance to City operations and their potential to impact the General Fund.

According to the best practices recommendation, in establishing a policy governing the level of unrestricted fund balance in the General Fund, a number of factors should be considered, including:

- The predictability of revenues and expenditures. As numerous revenue sources have been impacted by the economic downturn, a larger reserve should be considered.
- The City's perceived exposure to significant one-time or ongoing outlays, such as, natural disasters, immediate capital needs, and state budget cuts.
- The potential drain upon general fund resources from other funds as well as the available resources from other funds may require a higher or lower level of unrestricted fund balance be maintained.
- Liquidity (i.e. the disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Commitments and assignments (i.e., maintenance of higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the City for a specific purpose).

Pasadena is one of only a few Cities in California to maintain a AAA bond rating. Maintenance of this rating is a high priority. In a survey of other California cities with a AAA rating, their General Fund unrestricted reserve levels range from 13 to 50 percent. The City of Glendale has set their minimum reserve at 30 percent with a target of 50 percent. Burbank has established a 15 percent working capital reserve and a 5 percent emergency reserve.

On June 27, 2011 City Council took action to establish a Fund Balance Policy for the General Fund which complied with GASB Statement No. 54 and formally committed 10 percent specifically for emergency contingencies. At that time, staff indicated that we would return to City Council with additional Fund Balance Policy recommendations for the General Fund and other significant funds.

The attached Fund Balance Policy document provides policy statements that establish targeted goals for the General Fund and thirteen other funds. Four significant changes

are proposed: increasing the General Fund Emergency Contingency from 10 percent to 20 percent, maintaining one month of current year appropriations in the Library Fund Balance, increasing the Water Fund reserve from one to two months, and gradually funding the Annual Required Contribution for the City's Other Post-Employment Benefits.

The stated policy guidelines provide for specific incremental increases when required to move funds into or closer to compliance with the targeted fund balance goal each year during the budget process. Additionally, each year at a meeting after the presentation of City's Comprehensive Annual Financial Report, a compliance report indicating the actual and targeted amounts of each fund will be presented. Every two years, if not more frequently, staff will present the Fund Balance Policy to Council for review. Attached is a matrix summarizing the current policy, the proposed policy, and an explanation of the change for each fund with a stated policy.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the update of the Fund Balance Policy.

FISCAL IMPACT:

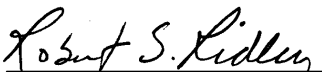
There is no immediate fiscal impact as a result of this action and it will not have any indirect or support cost requirements. The anticipated impact to other operational programs or capital projects as a result of this action will be none. While there is no immediate fiscal impact of modifying the Fund Balance Policies, there will be fiscal impact to future City Budgets.

Respectfully submitted,

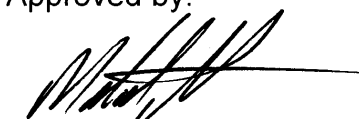


ANDREW GREEN
Director of Finance

Prepared by:


Robert S. Ridley
Controller

Approved by:


MICHAEL J. BECK
City Manager

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA APPROVING THE CITY OF PASADENA ADMINISTRATIVE POLICY, FUND BALANCE POLICY, AND GENERAL FUND EMERGENCY CONTINGENCY COMMITMENT OF FUND BALANCE FOR THE GENERAL FUND

WHEREAS, the Governmental Accounting Standards Board (GASB), has issued its Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, with the intent of improving financial reporting by providing fund balance categories that will be more easily understood; and

WHEREAS, The City Council of the City of Pasadena on June 27, 2011 approved the "Fund Balance Policy for the General Fund"; and

WHEREAS, the City Council of the City of Pasadena has considered Administrative Policy, "Fund Balance Policy" (Attachment A to Agenda Report of August 8, 2011), which updates and outlines the policy and procedures enacted to accurately categorize and report fund balance in the General Fund, which were previously stated in the Fund Balance Policy for the General Fund; and

WHEREAS, the Administrative Policy entitled, "Fund Balance Policy", provides that the City Council may commit General Fund balance for specific purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action taken to establish the commitment; and

WHEREAS, the Director of Finance has recommended to the City Council that the General Fund Emergency Contingency Commitment of the General Fund balance be increased to 20 percent from 10 percent of the General Fund annual appropriations; and

WHEREAS, the City Council has determined that the General Fund Emergency Contingency Commitment of the General Fund Balance should be increased and approved at 20 percent of the General Fund annual appropriations for Fiscal Years after Fiscal Year 2014, as recommended by the Director of Finance; and

WHEREAS, the Fund Balance Policy includes a temporal framework for increasing the General Fund Emergency Commitment of the General Fund over five years if this goal cannot be reached initially; and

WHEREAS, the Fund Balance Policy includes requirements that the policy be taken into account during budget preparation, fund balances be reported upon

annually, and that the policy itself be reviewed by City Council at a minimum of once every two years.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pasadena, California that:

1. The City Council hereby updates and approves the Administrative Policy, Fund Balance Policy (Attachment A to Agenda Report of August 15, 2011).

2. The City Council hereby delegates to the Director of Finance the authority to assign fund balances for specific purposes for inclusion in the annual financial reports.

3. The City Council hereby updates and approves the General Fund Emergency Contingency Commitment of General Fund of 20 percent of the General Fund annual appropriations for Fiscal Years beginning after Fiscal Year 2014.

4. The City Council has determined that the specific purposes for which the General Fund Emergency Contingency Commitment may be used for are emergency contingencies in the event of the declaration of a state or federal state of emergency or a local emergency as defined in Title 2, Chapter 2.370 of the City of Pasadena Municipal Code and these uses may only be changed by approval of a subsequent resolution.

Adopted at the regular meeting of the City Council on the 8th day of August, 2011 by the following vote:

AYES:

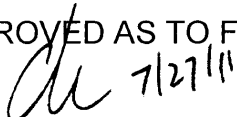
NOES:

ABSENT:

ABSTAIN:

Mark Jomsky, CMC
City Clerk

APPROVED AS TO FORM:



Nicholas G. Rodriguez
Chief Assistant City Attorney

Subject: Fund Balance Policy	Administering Department: Finance	Policy Number:
Prepared By: Finance Department	Approved By: City Council	Effective Date: August 15, 2011

The focus of this Fund Balance Policy document is to conform to municipal industry best practices for the establishment and maintenance of adequate fund balances and operating reserves for significant funds of the City of Pasadena. It is intended that these policies serve as guidelines and goals to be used in the establishment of the City's annual budget and that some deviation from the target levels can be anticipated in certain circumstances, such as in an economic downturn, as reflected in the City's current General Fund Fiscal Year 2014 Financial Plan.

DISCUSSION

This policy seeks to distinguish between the term "reserves" and "fund balance", "retained earnings", or net assets of a fund. Fund balance and net assets both refer to the net difference after subtracting the amounts of liabilities from assets. Retained earnings represent the cumulative balance of revenues less expenses and are only one component of net assets of proprietary funds. The term "reserves" should be used only to identify that portion of the fund balance of governmental funds segregated for future purposes or not available to finance expenditures of the subsequent accounting period. For the purpose of this policy, the term "reserves" is used to refer to cash levels or working capital levels (current assets less current liabilities) which support the stated fund balance or net asset policy. Stating certain cash or working capital levels is designed to focus on the City's ability to meet its short-term and long-term obligations and to ensure that the City maintains the highest credit quality possible. In addition, this policy is designed to assist the City as it experiences significant swings in cash flows due to economic cycles as well as unanticipated emergencies. Cash reserves may be in the form of actual cash or investments and does not refer to any other form of current or long-term assets such as receivables, inventory, or equipment. This is an important distinction because any given City fund may have a large fund balance on the balance sheet but no cash to support it. The City needs to maintain adequate cash balances to be able to meet its ongoing obligations.

The City pools its cash for investment purposes and permits temporary, short-term internal borrowing between funds to meet cash requirements at different points during the fiscal year. It is clearly recognized, however, that each fund must be able to stand on its own and fulfill the obligations for which it was established. The appropriate size of the reserve for a specific fund depends upon several factors. These include:

1. Timeliness of the cash flow stream;
2. Current economic environment influencing the revenue and expenditure stream throughout the fiscal year, and

3. Anticipated economic outlook which will influence future revenues, expenditures, and asset and liability additions and retirements.

Cash is segregated into the separate funds either as a requirement of the City's charter, a City ordinance, state regulation, grant requirement, or due to operating policies as a means to set aside funding for specific purposes either currently identified or anticipated. The Department of Finance maintains over 150 separate funds on behalf of the City, its affiliated agencies, operating companies and commissions.

There are a number of general concepts that are important in the development and maintenance of an effective Fund Balance policy. The following concepts are applicable to all funds:

- The City will seek to maintain a diversified and stable revenue base to protect from short-term fluctuations in any one revenue source.
- To emphasize and facilitate long-range financial planning, the City will maintain at least five-year financial projections of revenues and expenditures for its General Fund and significant funds.
- To achieve important public policy goals, the City has established various special revenue, capital project, debt service, and enterprise funds to account for revenues whose use is restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds with its own revenue sources, expenditures, and fund equity.

Inter-Fund Transfers

Any operating transfers between funds for operating purposes can only be made by the Director of Finance in accordance with the adopted budget. These operating transfers, which consist of financial resources being permanently transferred from one fund to another, are distinctly different from inter-fund borrowings, which are usually made for temporary cash flow reasons and are not intended to result in a permanent transfer of financial resources by the end of the fiscal year. Consequently, operating transfers result in a change in fund equity, whereas inter-fund borrowings do not, due to the intent to repay the loan in the near term. Occasionally, inter-fund borrowings may be appropriate. Other than temporary borrowing of cash, however, it is the policy of the City to obtain formal authorization from the City Council for inter-fund loans, notes, or advances. Authorization is required if the borrowing is of a long-term nature, expecting to exceed one year. Existing inter-fund borrowing that will be repaid over a period exceeding one year will be exempt and grandfathered into the policy unless otherwise directed by the City Council. Specifically,

1. The Director of Finance is authorized to approve temporary inter-fund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 365 days. The most common use of inter-fund borrowing under this circumstance is for grant programs like the Community

Development Block Grant where costs are incurred before a drawdown is initiated and received. The receipt of funds, however, is typically shortly after the request for funds has been made.

2. Any other inter-fund borrowing for cash flow or other purposes require case-by-case approval by the City Council.
3. Any transfers between funds where reimbursement is not expected within one fiscal year shall not be recorded as inter-fund borrowings but rather as inter-fund operating transfers that affect equity by moving financial resources from one fund to another.

GASB Statement NO. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 is only applicable to the governmental funds of the City (i.e. the general fund, special revenue funds, capital project funds, debt service funds, and permanent funds). The General Fund and four special revenue funds presented in this document are governmental funds and will now utilize the fund balance terminology explained in this document.

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of the specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specific purpose of the fund. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Director of Finance for the purpose of reporting these amounts in the annual financial statements. The City should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources. The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both the restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

FUND BALANCE AND RESERVE POLICIES

The following policy goals focus on selected City funds, including funds where the City Council has significant discretion. The policy will not address funds which have been established to track specific grants or funds which are highly restricted. The recommended policy may focus on either the maintenance or use of fund balance, certain cash, or working capital "reserves". Reference to the current year appropriations, operating expenses, capital expenditures, or expenses are all meant to refer to current year adopted budget numbers.

Although the timelines of stated goals are to be implemented beginning in fiscal year 2015, surpluses or savings when identified by the Director of Finance will be accumulated whenever possible in anticipation of the stated goals.

This policy will be taken into account when the Annual Budget is developed each year. Shortly after the City's annual audit is completed and the City's Comprehensive Annual Financial Report (CAFR) is delivered to City Council, a Fund Balance Policy compliance report indicating the levels of fund balance maintained in the prior year will be delivered to City Council. At a minimum of every two years, staff shall place this Fund Balance Policy on the agenda for Council review.

GENERAL FUND – (101)

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Director of Finance to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

PROCEDURES

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which amounts can be spent.

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on financial reporting of unrestricted fund balance or the last three components listed above. These three components are further defined below.

Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as by ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to

establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

- General Fund Emergency Contingency

The City's General Fund balance committed for emergency contingencies is established at twenty percent (20%) of the General Fund annual appropriations per the adopted City Budget. As defined in the resolution establishing this commitment, the specific uses are listed as the declaration of a state or federal state of emergency or a local emergency as defined in Title 2, Chapter 2.370 of the City of Pasadena Municipal Code. The City Council may change the amount of this commitment and/or the specific uses of these monies through the adoption of a new resolution.

- Increases and Decreases of General Fund Emergency Contingency

Upon conclusion of the FY 2014 Financial Plan, the City will increase its General Fund Emergency Contingency Committed Fund Balance by 2 percent each year until it reaches 20 percent of General Fund annual appropriations per the adopted City Budget. If there are sufficient additional funds available in Unassigned General Fund Balance at any time prior to FY 2014, City Council may direct that they also be directed into the General Fund Emergency Contingency Committed Fund Balance until 20 percent is reached. It is intended that this Committed Fund Balance would not be decreased below a 20 percent level (20 %) except at the specific direction of City Council or upon a declared emergency (the purpose of this commitment).

Assigned Fund Balance

Amounts that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Director of Finance for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow:

- Continuing Appropriations

Fund balance levels must be sufficient to meet funding requirements for projects approved in prior years and which must be carried forward into the new fiscal year per recommendation of the City Manager.

- Debt Service

Fund balance established to provide for future debt service obligations.

- Budget Balancing Measures

Funds set aside for the purpose of stabilizing the delivery of City services

during periods of operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures.

Unassigned Fund Balance

These are the residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories.

Fund Balance Classification

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both the restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

This policy is in place to provide a measure of protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

Purpose: The General Fund is used to account for all general revenue of the City not specifically levied or collected for other City funds and for expenditures that are related to the rendering of general services by the City.

Goal: The General Fund shall increase its General Fund Emergency Contingency commitment from 10 percent to 20 percent of current year appropriations beginning in FY 2015. The specific uses of this commitment are listed as the declaration of a state or federal state of emergency or a local emergency. At least 10 percent of appropriations should be in liquid cash. This percentage is to be applied against the entire General Fund appropriation at a minimum. This amount guards against the impact of economic downturns or other unforeseen events that are expected to be long-term (three or more years).

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient fund balance to commit the full 20 percent. If there is not sufficient fund balance to do so, beginning in FY 2015, the City will take steps to annually increase the General Fund Emergency Contingency commitment by a minimum of one fifth of the gap. If there is unassigned fund balance in excess of the requirement to meet the 20 percent goal, the City Council shall determine the best use of this fund balance during the annual budget process. City Council would have the ability to commit to something lower than one fifth by formal action. At any time, including prior to Fiscal Year 2015, Council may commit available funds toward the 20 percent goal.

BUILDING SERVICES FUND - (204) (A special revenue fund)

Purpose: The Building Services Fund accounts for the operations of the Permit Center including all revenues and expenditures associated with issuing various building permits.

Policy: The Building Services Fund shall maintain a 10 percent minimum Fund Balance applied against the entire Building Services Fund current year appropriation. Building Services revenues can be very volatile due to changes in development and construction activities. As a result, maintaining a 10 percent minimum Fund Balance will minimize the need to draw upon the General Fund to support these activities.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient fund balance to meet the full 10 percent. If there is not sufficient fund balance to do so, beginning in FY 2015, the City will take steps to annually increase the Fund Balance by a minimum of one fifth of the gap. If there is remaining fund balance in excess of the requirement to meet the 10 percent goal, the City Council shall determine the best use of this fund balance during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the 10 percent goal.

SEWER CONSTRUCTION AND MAINTENANCE FUND – (205) (A special revenue fund)

Purpose: The Sewer Construction and Maintenance Fund accounts for revenues received from sewer use and storm drain charges collected for the construction, repair and maintenance of the City's sewer and storm drain system.

Policy: The Sewer Construction and Maintenance Fund shall maintain a minimum Fund Balance equal to one month of current year operating appropriations. Additional Fund Balance shall be maintained to cover anticipated capital expenditures that will not be financed through the issuance of debt. This should be based upon a pre-developed capital improvement schedule. Given the current predictability of the sewer utility's cash flow, staff believes that a one month minimum Fund Balance will be adequate to cover routine unanticipated operating expenditure requirements. In addition, setting additional funds aside for anticipated capital requirements will provide more stable rates and greater surety for funding of specific projects.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient fund balance to meet the full one month amount and additional Fund Balance for capital projects. If there is not sufficient fund balance to do so, beginning in FY 2015, the City will take steps to annually increase the minimum Fund Balance by a minimum of one fifth of the gap and bring the Fund Balance for capital projects to the full requirement. If there is remaining fund

balance in excess of the requirement to meet the 10 percent and capital projects goals, the City Council shall determine the best use of this fund balance during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the 10 percent goal.

LIBRARY SERVICES FUND – (212) (A special revenue fund)

Purpose: The Library Services Fund accounts for the operations of the City's public libraries and is comprised of funding from both a special voter approved parcel tax and the General Fund.

Policy: The Library Services Fund shall maintain a minimum of one month of current year appropriations in Fund Balance. Any draws against the Fund Balance should be to cover increased costs to maintain service levels or to cover one-time operational requirements. Amounts necessary to maintain the one month minimum Fund Balance should be addressed through allowable reduction in expenses or additional General Fund transfers. The Library Services Fund receives 20 percent of its funding from the special library tax and 80 percent from the General Fund. Revenues in excess of expenditures are placed in the Library Services fund balance. The growth in the special tax is specified in the voter approved ballot measure. To ensure adequate funding for library services during the life of the tax, the Fund Balance must be carefully managed. Amounts in excess of those needed to meet this policy may be used to reduce future General Fund transfers. This policy is not intended to conflict with or override Pasadena Municipal Code Section 4.109.185.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient fund balance to maintain the full one month amount. If there is not sufficient fund balance to do so, beginning in FY 2015, the City will take steps to annually increase the Fund Balance by a minimum of one fifth of the gap. If there is remaining fund balance in excess of the requirement to meet the 10 percent goal, the City Council shall determine the best use of this fund balance during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the one month goal.

CHARTER CAPITAL FUND (302) (A special revenue fund)

Purpose: The Charter Capital Fund accounts for certain resources identified by the City Council for the acquisition, construction, replacement or repair of municipal improvements where disbursements other than specific municipal improvement projects can be authorized only by a vote of the people. Proceeds in the Charter Capital Projects Fund are from the sale of surplus city assets. This source is not dependable and as such, the City must carefully decide how and when to spend principal

balances from this fund.

Policy: The Charter Capital Fund shall maintain a Restricted Fund Balance that will progressively build up and be maintained to meet the timing of planned capital projects per the Capital Improvement Plan forecasted budget. Interest earnings on any cash balances shall be used to help offset the General Fund debt service requirements on bonds issued for qualified capital projects.

Timeline: Annually as part of the budget process the City shall determine whether or not to utilize the restricted balance of this fund for qualified capital projects or General Fund debt service on qualified capital projects.

LIGHT AND POWER FUND – (401)

Purpose: The Light and Power Fund accounts for the operations of the City's electric utility, a self-supporting activity which renders services on a user charge basis to residents and businesses as prescribed by the City Charter.

Policy: The Light and Power Fund shall maintain working capital reserves equal to two months current year operating appropriations. An Energy Reserve and a Transmission Reserve were established in 2006 to mitigate energy cost volatility. Additional cash balances shall also be maintained to cover anticipated capital expenditures which will not be financed. This shall be based upon a pre-developed capital improvement schedule. Given the current predictability of the electric utility's cash flow, a two month working capital reserve will be adequate to cover normal operating expenditure requirements. In addition, setting additional funds aside for anticipated capital requirements will provide more stable rates and greater surety for funding of specific projects. This policy does not address the Reserve for Stranded Investment which will be maintained separate and apart from the normal Light and Power Fund reserve. No changes are proposed at this time.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient working capital to meet the two month reserve goal. If there are not sufficient working capital reserves to do so, beginning in FY 2015, the City will take steps to annually increase the working capital reserve by a minimum of one fifth of the gap. If there are working capital reserves in excess of the requirement to meet the two month and other specific reserves goals, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the two month goal.

WATER FUND - (402)

Purpose: The Water Fund accounts for the operations of the City's water utility, a self-supporting activity which renders services on a user charge basis to residents and businesses as prescribed by the City charter.

Policy: The Water Fund shall maintain working capital reserve equal to two months current year operating appropriations. This represents an increase over the prior policy requiring a 30-day cash reserve. It is likely to take a number of years to transition to this higher and more prudent level. Additional cash balances shall also be maintained to cover anticipated capital expenditures which will not be financed. This shall be based upon a pre-developed capital improvement schedule. Given the current predictability of the water utility's cash flow, a two month cash reserve will be adequate to cover normal operating expenditure requirements. In addition, setting additional funds aside for anticipated capital requirements will provide more stable rates and greater surety for funding of specific projects.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient working capital to meet the full two month reserve and capital projects goal. If there are not sufficient working capital reserves to do so, beginning in FY 2015, the City will take steps to annually increase the working capital and capital expenditure reserve goals by a minimum of one tenth of the gap. If there are working capital reserves in excess of the requirement to meet the two month and capital expenditure reserves goals, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the one month goal.

REFUSE COLLECTION FUND – (406)

Purpose: The Refuse Collection Fund accounts for the operations of the City's refuse collection program, a self-supporting activity which renders services on a user charge basis to residents and businesses.

Policy: The Refuse Collection Fund shall maintain working capital reserves equal to one month current year operating appropriations. Additional cash balances shall also be maintained to cover anticipated capital expenditures which will not be financed. Given the current predictability of the refuse cash flow, staff believes that a one month working capital reserve will be adequate to cover normal operating expenditure requirements. In addition, setting additional funds aside for anticipated capital requirements will provide more stable rates and greater surety for funding of specific projects.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient working capital to meet the one month

and capital expenditure reserve goals. If there are not sufficient working capital reserves to do so, beginning in FY 2015, the City will take steps to annually increase the working capital and capital expenditure reserve goals by a minimum of one fifth of the gap. If there are working capital reserves in excess of the requirement to meet the two month and capital expenditure reserve goals, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the one month goal.

COMPUTING AND COMMUNICATION SERVICES FUND - (501)

Purpose: The Computing and Communication Services Fund accounts for all operations of the Department of Information Technology, which includes services such as the service center providing help desk support for employees and City Council, desktop and enterprise computing, networks, application services, Geographical Information Services, program and project management, training, radio communications, telephone, wireless, and voice services.

Policy: The Computing and Communication Services Fund shall maintain a working capital reserve for emergency equipment requirements equal to 10 percent of the annual operating budget for the current fiscal year. In addition, adequate cash balances shall be maintained to replace computer hardware, software, infrastructure, and communication equipment based upon a pre-established replacement schedule. This schedule shall be reviewed annually and updated as needed as part of the annual budget cycle. This will avoid the need for the General Fund or any other operating fund to raise large sums of cash in any single fiscal year. On a case-by-case basis, decisions will be made either to finance capital purchases or pay cash for them. If any given purchase is financed, then the rates for the subsequent fiscal year(s) would incorporate adequate cash flow to cover the debt service replacement of equipment.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient working capital to meet the 10 percent reserve goal. If there are not sufficient working capital reserves to do so, beginning in FY 2015, the City will take steps to annually increase the working capital reserve by a minimum of one fifth of the gap. If there are working capital reserves in excess of the requirement to meet the 10 percent goal, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the 10 percent goal.

BUILDING MAINTENANCE FUND - (502)

Purpose: The Building Maintenance Fund accounts for housekeeping and structural maintenance of City buildings and for paying the utility bills and property insurance for all City buildings.

Policy: The Building Maintenance Fund shall maintain a working capital reserve equal to 10 percent of current year operating appropriations. Rates charged by Public Works must be adequate to ensure that current revenues are sufficient to cover all current expenditures. The working capital reserve will be used to cover any extraordinary and unanticipated expenses during the fiscal year. Rates charged to departments may need to be adjusted to accommodate cash requirements. A long-term maintenance schedule and funding plan has been developed by the Public Works department. This plan shall be reviewed and updated annually during the budget process.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient working capital to meet the 10 percent reserve goal. If there are not sufficient working capital reserves to do so, beginning in FY 2015, the City will take steps to annually increase the working capital reserve by a minimum of one fifth of the gap. If there are working capital reserves in excess of the requirement to meet the 10 percent goal, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the 10 percent goal.

FLEET MAINTENANCE FUND - (503)

Purpose: The Fleet Maintenance Fund accounts for the maintenance, repair, and replacement of City vehicles and equipment.

Policy: The Fleet Maintenance Fund shall maintain a \$250,000 cash reserve balance. In addition, adequate cash balances shall be maintained to replace vehicles and equipment based upon a pre-established replacement schedule. The Fleet Maintenance Fund has developed a replacement schedule for City vehicles and equipment. Occasionally, vehicles have to be replaced outside the normal schedule. The working capital reserve will help address these unforeseen circumstances.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient working capital to meet the \$250,000 cash reserve goal. If there are not sufficient working capital reserves to do so, beginning in FY 2015, the City will take steps to annually increase the cash reserve by a minimum of one fifth of the gap. If there are working capital reserves in excess of the requirement to meet the \$250,000 cash goal, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the

\$250,000 goal.

BENEFITS FUND – (504)

Purpose: The Benefits Fund accounts for employee compensated absences, retirement, and health benefits.

Policy: The Benefits Fund shall maintain a 100 percent cash reserve to cover its short-term accounts payable and accrued liability obligations and a 50 percent cash reserve to cover its long-term employee obligations for compensated absences. This fund covers the amount of vacation, floating holiday, and overtime accrued to employees throughout the City. It is not expected that the City will have to cover 100 percent of these liabilities in any single fiscal year. For this reason, maintaining a 50 percent cash reserve balance should provide adequate coverage. Additionally, the City should develop a funding plan and budget for the Annual Required Contribution (ARC) of other post employment benefits as actuarially determined annually per requirements of GASB 43 and GASB 45. If the reserves are drawn upon in any given year, they would be replenished in the subsequent year(s) through an adjustment in the rates charged to the various departments.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient cash to meet the cash reserve goals. If there are not sufficient cash reserves to do so, beginning in FY 2015, the City will take steps to annually increase the working capital reserve by a minimum of one tenth of the gap. If there are cash reserves in excess of the requirement to meet the cash reserve goals, the City Council shall determine the best use of this excess during the annual budget process. It is recommended that the City establish a trust to begin funding the City's Other Post Employment Benefit (OPEB) under a funding plan determined by Council which would include gradually increasing increments of the Annual Required Contribution in excess of the pay as you go methodology currently used. This funding plan should continue until the City is paying the entire Annual Required Contribution each year. It would also be beneficial for the City to establish a plan to pay off the OPEB Liability by making additional contributions to the OPEB Trust in future years. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the 100 percent, 50 percent, and/or OPEB funding goal.

WORKERS' COMPENSATION FUND – (506)

Purpose: The Workers' Compensation Fund accounts for the disbursement of self-insured workers' compensation related expenses and approved payments in settlement of claims.

Policy: The Workers' Compensation Fund shall maintain a 70 percent cash reserve to cover its projected claims payable obligations. The

projected liability recorded each year on the City's financial statements is based upon known and anticipated claims filed by employees of the City. It is highly unlikely that all claims would become due and payable at once. In addition, the City budgets an amount each year it estimates will be necessary to cover that year's costs and claim payments. By maintaining a 70 percent cash reserve balance, the City should have adequate available funding in the event of any unusual activities. If the reserves are drawn upon in any given year, they would be replenished in the subsequent year(s) through an adjustment in the rates charged to the various departments.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient cash to meet the cash reserve goals. If there are not sufficient cash reserves to do so, beginning in FY 2015, the City will take steps to annually increase the cash reserve by a minimum of one tenth of the gap. If there are cash reserves in excess of the requirement to meet the cash reserve goals, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the 70 percent goal.

GENERAL LIABILITY FUND – (507)

Purpose: The General Liability Fund accounts for the disbursement of general liability claims against the City.

Policy: The General Liability Fund shall maintain a 70 percent cash reserve to cover its projected claims payable obligations. The projected liability recorded each year on the City's financial statements is based upon known and anticipated claims filed against the City. It is highly unlikely that all claims would become due and payable at once. In addition, the City budgets an amount each year it estimates will be necessary to cover that year's costs and claim payments. By maintaining a 70 percent cash reserve balance, the City should have adequate available funding in the event of any unusual activities. If the reserves are drawn upon in any given year, they would be replenished in the subsequent year(s) through an adjustment in the rates charged to the various departments.

Timeline: After completion of the City's Fiscal Year 2014 Financial Plan, the City will determine if it has sufficient cash to meet the cash reserve goals. If there are not sufficient cash reserves to do so, beginning in FY 2015, the City will take steps to annually increase the cash reserve by a minimum of one tenth of the gap. If there are cash reserves in excess of the requirement to meet the cash reserve goals, the City Council shall determine the best use of this excess during the annual budget process. At any time, including prior to Fiscal Year 2015, Council may direct available funds toward the 70 percent goal.

Attachment B

CITY OF PASADENA FUND BALANCE POLICY RECOMMENDATIONS AUGUST 15, 2011											
CAFR FUND	FUND DESCRIPTION	CURRENT POLICY	MEETS CURRENT POLICY	PROPOSED POLICY	CHANGE FROM CURRENT POLICY	AFTER FY 2014 IF UNABLE TO FULLY FUND FUND OVER 5 Years	PROPOSED			AUDITED UNRESTRICTED CASH BALANCE 6/30/2010 (MILLIONS)	
							AMOUNT TO MEET POLICY (MILLIONS)	AUDITED FUND BAL. AVAILABLE 6/30/2010 (MILLIONS)	EXCEEDS (SHORT) OF GOAL (MILLIONS)		MEETS PROPOSED POLICY
101	General Fund	General Fund Emergency Contingency is 10% of budgeted appropriations is "Committed" via Resolution.	Yes	After FY 2014, increase over the next five years to 20% by increasing 1/5 of annual shortfall.	Change-Increase from 10 to 20%	5 Years	43.4	45.2 (Note 1)	1.8	Yes	\$41.7
204	Building Services Fund	10% working capital cash reserve balance applied against full fund appropriation. In addition maintain a cash reserve balance adequate to cover automation and technology.	No	10% minimum fund balance applied against full fund appropriation.	No Change	5 Years	0.6	(1.6)	(2.2)	No	(\$1.3)
205	Sewer Construction and Maintenance Fund	30 day reserve-Prior year expenditures times 1/12th, plus additional cash for anticipated capital expenditures	Yes	One month of current year appropriation as minimum fund balance. Additional cash reserves to cover capital expenditures that will not be covered by issuing debt.	Minor Change-prior year to current year appropriations	5 Years	3.3	4.2	0.9	Yes	\$3.7
283	Library Services Fund	Any draw against Reserve to cover increased costs or to cover one-time operational requirements. Any ending fund balance may be credited to following year to minimum General Fund threshold.	Yes	One month of current year appropriation as minimum fund balance. Amounts in excess of this requirement may be used to reduce future general fund transfer. Does not modify Municipal Code Section 4.109.185	Change-Hold one month in reserve	5 Years	1.0	0.7	(0.3)	No	\$1.1
302	Charter Capital Fund	Maintain reserves that will be built up and be maintained to meet the timing of planned capital projects. Interest earnings shall be used to help offset General Fund debt service requirements on bonds for qualified capital projects.	Yes	Maintain reserves that will be built up and be maintained to meet the timing of planned capital projects. Interest earnings shall be used to help offset General Fund debt service requirements on bonds for qualified capital projects.	No Change	N/A Dependent on sale of City Property	5.5	5.5	0.0	Yes	\$5.5
401	Light and Power Fund	60 days of projected expenses less depreciation; Energy Reserve; Transmission Reserve; Contingency & Equipment Replacement Reserve; Unexpended Bond Proceeds; PBC Reserve; Capital Reserve. (Adopted May 15, 2006)	Yes	60 days of projected expenses less depreciation; Energy Reserve; Transmission Reserve; Contingency & Equipment Replacement Reserve; Unexpended Bond Proceeds; PBC Reserve; Capital Reserve (Adopted May 15, 2006)	No Change	5 Years	112.7	141.1	28.4	Yes	\$101.0
402	Water Fund	30 days cash reserve (1/12th of prior year expenditures) and additional cash to cover anticipated capital expenditures which will not be financed.	No	Working capital reserve of two months of operating expenditures (16.67%). It is recognized that this will likely take a number of years to transition to this higher and more prudent level. Additional cash balances shall be maintained to cover anticipated capital expenditures which will not be financed.	Change-Increase to 2 months rather than 1 month & prior year to current year expenses	10 Years	12.8	1.4	(11.4)	No	\$2.3

CITY OF PASADENA FUND BALANCE POLICY RECOMMENDATIONS AUGUST 15, 2011											
CAFR FUND	FUND DESCRIPTION	CURRENT POLICY	MEETS CURRENT POLICY	PROPOSED POLICY	CHANGE FROM CURRENT POLICY	AFTER FY 2014 IF UNABLE TO FULLY FUND FUND OVER 5 Years	PROPOSED			MEETS PROPOSED POLICY	AUDITED UNRESTRICTED CASH BALANCE 6/30/2010 (MILLIONS)
							AMOUNT TO MEET POLICY (MILLIONS)	AUDITED FUND BAL AVAILABLE 6/30/2010 (MILLIONS)	EXCEEDS (SHORT) OF GOAL (MILLIONS)		
406	Refuse Collection Fund	30 days working capital (1/12th of prior year expenditures) and additional cash to cover anticipated capital expenditures which will not be financed.	Yes	Working capital reserve of one month of operating expenses (8.33%); additional cash reserves to cover anticipated capital expenditures that will not be financed.	Minor Change-prior year to current year appropriations		1.1	2.8	1.7	Yes	\$4.6
501	Computing and Communication Services Fund	\$250,000 cash reserve at the beginning of each fiscal year for emergency equipment replacement needs and adequate cash balances for replacements equipment based on a pre-established replacement schedule.	Yes	Working capital reserve of 10% of annual operating budget; additional cash reserves to replace computer hardware, software, infrastructure, and communications equipment based upon pre-established replacement schedule.	Change	5 Years	1.3	2.9	1.6	Yes	\$3.4
502	Building Maintenance Fund	10% working capital cash reserve balance applied against full fund appropriation.	No	Working capital reserve of 10% of operating expenses, rates charged must be adequate so that current revenues cover all current expenditures. Annual funding plan update as part of Budget process.	Minor Change-prior year to current year expenses	5 Years	1.0	(1.5)	(2.5)	No	(\$1.2)
503	Fleet Maintenance Fund	\$250,000 cash reserve and adequate cash balances to replace vehicles and equipment based on a pre-established replacement schedule.	Yes	\$250,000 cash reserve and adequate cash balances to replace vehicles and equipment based on a pre-established replacement schedule.	No Change	5 Years	0.25	2.4	2.2	Yes	\$3.7
504	Benefits Fund	100% cash reserve to cover short-term accounts payable and accrued liabilities and 75% cash reserve to cover long-term employee obligations for compensated absences.	No	100% cash reserve to cover short-term accounts payable and accrued liabilities, 50% cash reserve to cover long-term employee obligations for compensated absences, and budget for the Annual Required Contribution for other post employment benefits.	Change-Reduce cash reserve on long-term employee obligations from 75% to 50% and fund or partially fund OPEB ARC	10 Years	19.7	(16.3) (NOTE 2)	(36.0)	No	\$3.7
506	Workers' Compensation Fund	75% cash reserve to cover projected claims payable.	No	70% cash reserve to cover projected claims payable.	Change-Reduce cash reserve from 75% to 70%	10 Years	12.0	(7.3) (NOTE 3)	(19.3)	No	\$10.3
507	General Liability Fund	75% cash reserve to cover projected claims payable.	No	70% cash reserve to cover projected claims payable.	Change-Reduce cash reserve from 75% to 70%	10 Years	5.3	1.0	(4.3)	No	\$2.6
NOTES REGARDING FUNDS:											
NOTE 1 101 General Fund. A portion of the available fund balance will be spent down per the FY 2014 Financial Plan. City Council took action on June 27, 2011 to commit 10 percent to General Fund Emergency Contingency and comply with GASB 54.											
NOTE 2 504 Benefits Fund. While this fund shows a fund balance deficit, it has sufficient cash to meet current obligations. Approximately \$7 million of the deficit is from unfunded Other Post Employment Benefits (OPEB).											
NOTE 3 506 Worker's Compensation Fund. This fund has sufficient cash to pay current liabilities. Approximately half of the liabilities in this fund are long term, expected to be paid over many years.											