

# Agenda Report

October 20, 2014

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Department of Finance

**SUBJECT: ADOPTION OF RECOMMENDATION TO USE FISCAL YEAR 2014  
GENERAL FUND OPERATING SURPLUS FOR POLICY RESERVES  
AND UNFUNDED LIABILITIES**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed action is not subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Authorize anticipated surplus dollars resulting from Fiscal Year 2014 preliminary unaudited numbers to be used to rebuild policy reserves and to address unfunded liabilities; and
3. Authorize the transfer of previous revenues (\$1,858,812) set aside in the General Fund as a reserve for the Water Fund transfer to the General Fund litigation to the General Liability Fund where it is more appropriately recorded; and
4. Authorize the Finance Director to use these numbers in the FY 2014 Comprehensive Annual Financial Report (CAFR).

## **BACKGROUND:**

At the September 29, 2014 Finance Committee meeting, it was reported that, based on fiscal year 2014 (FY 2014) preliminary unaudited numbers, the General Fund reflected a surplus of approximately \$4.8 million. This amount is better than the approximately \$1 million surplus estimate presented during the FY 2015 budget process primarily due to salary savings and departmental spending adjustments at the end of the fiscal year. As of June 30, 2014, there were approximately 70 vacancies in the General Fund and 221

vacancies city-wide. Original estimates assumed filling these vacancies at a faster pace to be conservative. The majority of the additional operating surplus is the result of these additional salary savings. It must be noted, however, that these savings, are one-time savings that will dissipate as the vacancies are filled. Adjustments in spending of departments generated approximately \$400,000 more in savings than originally anticipated. As reported previously, approximately \$1.9 million of the surplus is due to a debt repayment from the Old Pasadena Parking District. The entire estimated surplus consists of one-time revenues and expense savings. Best practice established by entities such as the Governmental Finance Officer Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) and generally accepted accounting principles (GAAP) dictate that one-time resources should be used for one-time expenses. Consequently, it is recommended that the anticipated surplus resulting from FY 2014 preliminary unaudited numbers be used to rebuild policy reserves and address unfunded liabilities.

Table 1 below provides a summary of the recommendations. Details of each item follow this paragraph. Staff recommends that the allocations reflected in Table 1 be approved and included in the FY 2014 Comprehensive Annual Financial Report (CAFR) that will be presented in late November 2014. This recommendation is based on guidelines that will be incorporated in the updated *Fund Balance Reserve Policy* which will be presented for City Council approval in early December 2014.

Item A represents the transfer of revenues reserved in the General Fund to the General Liability Fund reserve related to the Water Fund Transfer to General Fund litigation where it is more appropriately recorded.

Item B represents the repayment to the Benefits Fund, which funded the pension withdrawal by PACTE from the LIUNA Pension as previously authorized by the City Council on October 22, 2012.

Item C represents replenishment of the Benefits Fund by the General Fund which would fund a reserve to buy down personnel vacation balances.

Item D provides a General Fund contribution to the fund balance of the Benefits Fund which will be assigned for future reduction of the Other Post Employment Benefit (OPEB) unfunded liability.

**Table 1**

<b>General Fund Operations Results Recap - Prelim 6/30/14</b>	
Results prior to adjustments - Prelim 6/30/14	\$4,759,085
<b>Adjustments:</b>	
A. Transfer to Liability Fund for Water GFT settlement (gross up of both revenues and expenditures in the amount of \$1,858,812, net impact is zero)	-
B. Transfer to Benefits Fund to repay final portion PACTE loan (receivable will be established in applicable other funds to reimburse General Fund)	(1,273,620)
C. Transfer to Benefits Fund to buy down of safety personnel vacation balances above accrual cap	(1,000,000)
D. Transfer to Benefits Fund for contribution toward OPEB unfunded liability	<u>(1,000,000)</u>
Adjusted Results - Prelim 6/30/14	\$1,485,465

**COUNCIL POLICY CONSIDERATION:**

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

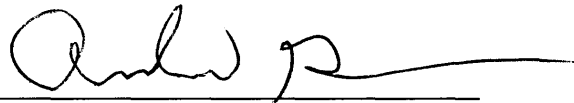
**ENVIRONMENTAL ANALYSIS:**

The proposed action is will not cause a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment; therefore, the proposed action is not subject to CEQA as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines.

**FISCAL IMPACT:**

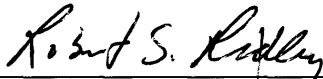
The fiscal impact of this recommendation is the transfer out from the General Fund (101) to the Benefits Fund (504) for the final repayment of a previously City Council approved loan to pay out a PACTE LIUNA benefits program (\$1,273,620) and for contributions to unfunded liabilities (\$2,000,000). This action would also authorize the transfer of previous revenues (\$1,858,812) set aside in the General Fund as a reserve for the Water Fund transfer to the General Fund litigation to the General Liability Fund where it is more appropriately recorded. There are no anticipated impacts to other operational programs or capital projects as a result of this action.

Respectfully submitted,



ANDREW GREEN  
Director of Finance  
Department of Finance

Prepared by:



Robert Ridley, Controller  
Department of Finance

Approved by:



for MICHAEL J. BECK  
City Manager