



Agenda Report

September 12, 2022

TO: Honorable Mayor and City Council

FROM: Department of Finance

SUBJECT: APPROVAL OF COMMITMENT OF GENERAL FUND BALANCE FOR THE GENERAL FUND EMERGENCY CONTINGENCY COMMITMENT AND GENERAL FUND OPERATING RESERVE FOR FISCAL YEAR 2022

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 \$43,003,950 and General Fund Operating Reserve commitment of up to \$14,334,650 (with the final amount to be determined upon conclusion of Fiscal Year 2021 financial statement preparation based solely on General Fund sub-fund 101) from fund balance of the General Fund for Fiscal Year (FY) 2022.

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.

In FY 2017 the overall commitment of 20 percent was split between the General Fund Emergency Contingency (15 percent) and a General Fund Operating Reserve (5 percent). The reserve was fully funded in FY 2020 prior to the COVID-19 pandemic when the City Council approved the funding of several key initiatives including small business grants, an alternative care site, and debt service payments related to the Rose Bowl Stadium. At the end of FY 2021, both reserves were recorded as fully funded; however, it was reported that there was more than \$11 million in unreimbursed activities related to COVID-19 from both FY 2021 and future costs of FY 2022, that may be deducted from the 5 percent Operating Reserve should reimbursement from FEMA or other sources not be available. Fortunately, the City received American Rescue Plan Act funds and was able to use more than \$9.8 million as revenue loss to balance the FY 2022 Operating Budget.

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: non-spendable, restricted, committed, assigned, and unassigned. It also requires formal action by the City Council to commit fund balance annually, prior to fiscal yearend. Since the City's financial books have not been audited, the approval by the City Council still meets the yearend requirement.

This action formally commits the full 15 percent FY 2022 General Fund Emergency Contingency Committed fund balance for \$43,003,950 and the 5 percent General Fund Operating Reserve of \$14,334,650 with a recognition that the actual amount of the Operating Reserve may be less to account for previously approved unreimbursed activities. As it is not possible to accurately project a specific amount for the commitment of Operating Reserve at this time, it is acceptable under GASB 54 to approve the methodology to determine the fixed amount at a later date.

As previously requested by the City Council, the table below provides a comparison of the General Fund Fund Balances and includes the Section 115 Trusts for both pension and other post-employment benefits. It should be noted that due to market volatility in FY 2022, the Section 115 Trust accounts have declined in value, but are still higher than the original total investment of \$12.0 million.

General Fund - Fund Balance Summary			
	FY 2021	FY 2022	Change
15% Emergency Reserve	40,441,800	43,003,950	2,562,150
5% Operating Reserve	13,480,600	14,334,650	854,050
Unassigned	-	-	
Sub-Total	53,922,400	57,338,600	3,416,200
Section 115 Trust - Pension	13,317,499	11,701,050	(1,616,449)
Section 115 Trust - OPEB	2,521,705	2,216,382	(305,323)
Total	69,761,604	71,256,032	1,494,428

Prior to FY 2021, the City utilized the Annual Financial Report General Fund (Funds 101 to 110) total adopted appropriations to calculate the Emergency Contingency Committed Fund Balance and Operating Reserve. As Funds 102 to 110 are specialized sub-funds of the general fund, it is appropriate to base the calculation on the General Fund sub fund (Fund 101) adopted appropriations only. In FY 2021, the following funds have budgeted appropriations, but are excluded for FY 2021 calculation of reserves:

Sub Fund	Description	Purpose
102	Parking Operations Fund	Parking related to refuse fees Block 5
104	L. A. Impact Fund	Joint Task Force Efforts
105	General Fund Projects Fund	Reimbursable activities/projects
106	New Years' Day Events	Billing and collections related
107	Section 115 Trust Fund	Funds set aside for pension liability
108	Foothill Air Support Team Fund	Helicopter operations

In order to qualify as a 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 for the last ten-years 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%)
FY 2018	\$46,949,400	19.8% (15.0% plus 4.8%)
FY 2019	\$50,774,800	20.0% (15.0% plus 5.0%)
FY 2020	\$55,119,600	20.0% (15.0% plus 5.0%)
FY 2021	\$53,922,400	20.0% (15.0% plus 5.0%)
FY 2022	\$57,338,600	20.0% (15.0% plus 5.0%)

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 has the potential for causing a 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,


MATTHEW E. HAWKESWORTH
Director of Finance

Approved by:


MIGUEL MÁRQUEZ
City Manager