



# Agenda Report

September 11, 2023

**TO:** Honorable Mayor and City Council

**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 2023**

**RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Sections 15060 (c)(2), 15060 (c)(3), and 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required; and
2. Adopt a resolution approving the City of Pasadena General Fund Emergency Contingency commitment of \$43,952,969 and General Fund Operating Reserve commitment of up to \$14,650,989 (with the final amount to be determined upon conclusion of Fiscal Year 2023 financial statement preparation based solely on General Fund sub-fund 101) from fund balance of the General Fund for Fiscal Year (FY) 2023.

**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 2022, both reserves were recorded as fully funded. It is expected that \$5 million of the operating reserves will be utilized in FY 2024 to subsidize the general fund transfer from the power fund; however, the expectation is for the power fund to recover that amount in FY 2025.

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 2023 General Fund Emergency Contingency Committed fund balance for \$43,952,969 and the 5 percent General Fund Operating Reserve of \$14,650,989 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.

**General Fund - Fund Balance Summary**

|                             | <b>FY 2022</b> | <b>FY 2023</b> | <b>Change</b> |
|-----------------------------|----------------|----------------|---------------|
| 15% Emergency Reserve       | 43,003,950     | 43,952,969     | 949,019       |
| 5% Operating Reserve        | 14,334,650     | 14,650,989     | 316,339       |
| Unassigned                  | -              | -              | -             |
| Sub-Total                   | 57,338,600     | 58,603,958     | 1,265,358     |
| Section 115 Trust - Pension | 11,701,050     | 11,982,715     | 281,665       |
| Section 115 Trust - OPEB    | 2,216,382      | 2,270,012      | 53,630        |
| Total                       | 71,256,032     | 72,856,685     | 1,600,653     |

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 2023, the following funds have budgeted appropriations, but are excluded for FY 2023 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 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%) |
| FY 2023 | \$58,603,958 | 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 action proposed herein is not a project subject to the California Environmental Quality Act (CEQA) in accordance with Section 21065 of CEQA and State CEQA Guidelines Sections 15060 (c)(2), 15060 (c)(3), and 15378. The approval of the commitment of general fund emergency contingency and general fund operating reserves is government fiscal activity that does not involve any commitment to any

specific project which may result in a potentially significant physical impact on the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required.

**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 the total fund balance are changed.

Respectfully submitted,

  
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MATTHEW E. HAWKESWORTH  
Director of Finance

Prepared by:

  
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ARMINE TRASHIAN  
Controller

Approved by:

  
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MIGUEL MARQUEZ  
City Manager