



# Agenda Report

October 28, 2024

**TO:** Honorable Mayor and City Council

**Through:** Finance Committee

**FROM:** Finance Department

**SUBJECT: APPROVE THE COMMITMENT OF GENERAL FUND BALANCE FOR THE GENERAL FUND EMERGENCY CONTINGENCY COMMITMENT FOR \$48,552,000 AND GENERAL FUND OPERATING RESERVE FOR \$16,184,000 FOR FISCAL YEAR 2024**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that that the proposed action herein is not a “project” subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 21065 and within the meaning 15378(b), and, as such, no environmental document pursuant to CEQA is required.
2. Adopt a resolution approving the City of Pasadena General Fund Emergency Contingency commitment of \$48,552,000 and General Fund Operating Reserve commitment of up to \$16,184,000 (with the final amount to be determined upon conclusion of Fiscal Year (FY) 2024 financial statement preparation based solely on General Fund sub-fund 101) from fund balance of the General Fund for (FY) 2024.

## **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 2022.

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 2024 General Fund Emergency Contingency Committed fund balance for \$48,552,000 and the 5 percent General Fund Operating Reserve of \$16,184,000 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 currently, 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 2023</b>	<b>FY 2024</b>	<b>Change</b>
15% Emergency Reserve	43,952,969	48,552,000	4,599,031
5% Operating Reserve	14,650,989	16,184,000	1,553,011
Sub-Total	58,603,958	64,736,000	6,132,042
Section 115 Trust - Pension	11,982,715	13,206,233	1,233,518
Section 115 Trust - OPEB	2,270,012	2,501,656	231,644
<b>Total</b>	<b>\$72,856,685</b>	<b>\$80,443,889</b>	<b>\$7,587,204</b>

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 2024, the following funds have budgeted appropriations, but are excluded for FY 2024 calculation of reserves:

<b>Sub Fund</b>	<b>Description</b>	<b>Purpose</b>
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 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%)
FY 2024	\$64,736,000	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:**

CEQA excludes, from environmental review, actions that are not “projects” as defined by CEQA Guidelines Section 21065 and within the meaning of Section 15378(b). Sections 21065 and 15378(b) define a project as an action which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Section 15378 excludes from the definition of “project” government fiscal activities which do not involve any commitment to any specific project

which may result in a potentially significant physical impact on the environment. The actions proposed herein, approving the City of Pasadena General Fund Emergency Contingency commitment and General Fund Operating Reserve commitment, are governmental fiscal activities that do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment, and therefore is not a “project” as defined by CEQA. 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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