



Agenda Report

June 21, 2021

TO: Honorable Mayor and City Council /Successor to Pasadena Community Development Commission

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 2021

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 \$40,441,800 and General Fund Operating Reserve commitment of up to \$13,480,600 (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 2021.

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). In FY 2018 \$400,000 of the Operating Reserve was utilized to support the Colorado Street Bridge Capital Improvement Project. In FY 2019 this \$400,000 was returned to the reserve bringing the FY 2019 Reserves back to the full 20 percent. In FY 2020, due to the pandemic, the City utilized Operating Reserves of \$700,000 for the Alternative Care Site and \$750,000 to establish a COVID-19 Small Business Disaster Fund, and predicted utilizing a portion of the 5 percent Operating Reserve at the end of FY 2020. Fortunately, FY 2020 ended with a small surplus allowing for the full 5 percent operating reserve to be committed and leaving \$445,197 in unassigned fund balance.

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: Nonspendable, restricted, committed, assigned, and unassigned. It also requires formal action by the City Council to commit fund balance annually, prior to fiscal yearend.

This action formally commits the full 15 percent FY 2021 General Fund Emergency Contingency Committed fund balance for \$40,441,600 and a reduced General Fund Operating Reserve of an amount less than 5 percent and yet to be determined. This reduction below 5 percent is based on current projections of available fund balance, reflecting the pandemic and City Council's action to utilize General Fund resources to fund the Rose Bowl Operating Company debt service. It is projected that the available ending unassigned fund balance will not be sufficient to fund the full 5 percent Operating Reserve reduced by the above item. 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. This action is to determine the Operating Reserve by utilizing all unassigned General Fund fund balance up to the 5 percent amount to a maximum of \$13,480,600.

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 Fund 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

If we had made this change in methodology in FY 2020 the Emergency Contingency Reserve and Operating Reserve would have been slightly less as shown below.

General Fund Balance	FY 2020 As Adopted	FY 2020 With Method Change	Difference
Emergency Contingency Reserve	42,427,200	41,161,050	(1,266,150)
Operating Reserve	14,142,400	13,720,350	(422,050)
Unassigned	445,197	2,133,397	1,688,200
Total	57,014,797	57,014,797	0

The above table is from the prior year for the purpose of showing the impact of the methodology change. The following table illustrates the estimated FY 2021 results which are subject to change:

General Fund - Fund Balance Summary			
	Pre Covid	January 2021	June 2021
15% Emergency Reserve	41,339,700	40,441,800	40,441,800
5% Operating Reserve	13,779,900	313,103	2,133,129
Unassigned	2,829,061	-	-
Sub-Total	57,948,661	40,754,903	42,574,929
Section 115 Trust - Pension	11,651,442	12,801,739	12,859,773
Section 115 Trust - OPEB	2,204,665	2,422,785	2,434,761
Total	71,804,768	55,979,427	57,869,463

Projections for FY 2021 Operating Reserve are approximately \$2.1 million and take into account General Fund funding of Rose Bowl debt service.

As part of the FY 2022 Operating Budget, the City Council is expected to approve the appropriation of \$10 million from the General Fund to make payments for Rose Bowl Operating Company debt service and fund Amerifest. Since these funds will not be utilized until FY 2022, these funds will remain part of the Emergency Contingency and Operating Reserve at the end of FY 2021 and do not impact the FY 2021 Reserves.

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 since the implement of GASB Statement No. 54 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	\$43,441,800	16.1% (15.0% plus 1.1%)*

* The FY 2021 amounts reflect the full 15 percent emergency operating reserve and projects the Operating Reserve based on solely the Fund 101 General Fund sub fund, not the other five sub funds which roll up into the General Fund for financial statement presentation. This reflects the payment of Rose Bowl debt service, largely from the Operating Reserve. These are the current projections and are subject to change when the fiscal year is closed.

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

Prepared by:



Robert S. Ridley, Controller
Department of Finance

Approved by:



STEVE MERMELL
City Manager