

General Fund Fiscal Strategies

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Year-End Close and Status of General Fund Reserves

Overview of Risk-Based Reserves

Benefits

Methodology

Types of Reserves

Next Steps

General Fund Fiscal Strategies

Fiscal Year- End Close

- Focus on Recurring Operating Revenues and Expenditures
- Revenue Stronger than Expected
- Expenditures less than budget

Fiscal Year End Numbers June 30, 2021

	<u>Adopted Budget</u>	<u>Actual Results</u>
Revenues	162,249,550	180,218,202
Transfers In	2,665,803	3,042,977
Expenditures	174,987,442	169,333,235
Transfers Out	5,654,724	5,011,342
Net Surplus (Deficit)	<u>(15,726,813)</u>	<u>8,916,602</u>

Excludes Non-Operating Revenues such as Grants, Investment Earnings, PG&E Settlement Funds, etc.

Excludes Non-Operating Expenditures such as Projects and Grants

Sales Tax \$11M over initial estimates

A hold on vacant positions resulted in over \$5M in expenditure savings from Salaries and Benefits

Status of General Fund Reserves

	Amount
FYE 2020-21 Unaudited Reserves for Contingencies	122.8M
Policy-Mandated Reserve Requirement – 17%	(\$30.4M)
PG&E Funds: Roseland Library- \$10M, Tubbs Fire Recovery- \$20M, RED- \$10M, Uncommitted- \$7M	(\$47M)
Fiscal Stability (from PG&E Settlement Funds)	(\$40M)
Over/(Under) Council Policy and Commitments	\$5.4M

Overview – Risk-Based Reserves

Colorado Springs use of Risk-Based Reserves Subject of a GFOA case study in 2013

Analyze risks to General Fund operating budget

- Pension Costs
- Revenue Volatility
- Large Capital Replacement
- Deferred Maintenance

Assign funds for specific use

- Develop policies for use and methodology for adding to funds

Use a portion Year-End GF surplus to fund reserves

Create replacement budget to fund reserves where appropriate

Overview – Risk-Based Reserves

Finance began exploring the concept of Risk-Based Reserves in 2017

- General Fund reserves surpassed Council Policy requirements
- Address need to mitigate cost impacts to the General Fund

Work paused after the 2017 Fires

Renewed commitment from Finance to establish policies that provide stability to the General Fund

Currently use operating reserves to fund unforeseen events

Benefits

Allows the City to plan proactively for upcoming financial impacts

Adds transparency for putting aside funds to pay for General Fund operational and one-time risks

Distributes reserves fairly, avoiding a “reactionary” method to reserve spending

Potential favorable benefit for the City’s overall credit rating

Major potential risks specific to the City will be clearly outlined

Methodology

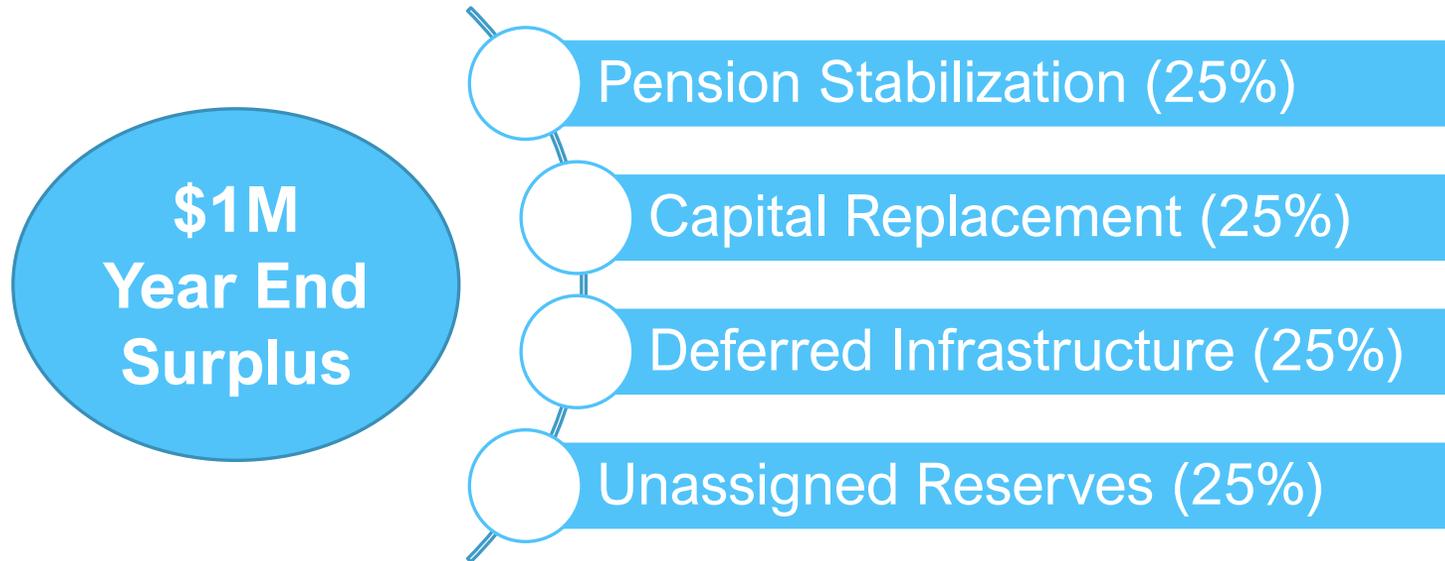
Use a portion of \$40M Fiscal Stability funds to initiate reserves

Establish a formula for allocating unspent appropriations to reserves based on greatest need

- Identify risks specific to the City of Santa Rosa
- Assesses the likelihood of each risk occurring and its impact
- Use the knowledge of these specific risks, as well as their likelihood/impact, to determine reserve requirements specific to Santa Rosa rather than a “one size fits all” approach
- Funding needed annually to maintain the reserve

Allow flexibility by not assigning all surplus funds to Risk-Based Reserves

Sample Funding Scenario



Process



- Pension Costs
- Deferred Maintenance
- Capital Replacement
- Revenue Volatility
- Analyze the likelihood of each risk occurring and its impact
- Assessment based on local factors

- Sources:
- Fiscal Stability Funds
- Budget surplus (if exists)
- Annual budget appropriations

Pension Costs

Rising costs due to Pension Unfunded Liability

- \$110M over next 14 years over current UAL payments
- Potential of Issuing Pension Obligation Bonds to address

Will still have other costs to CalPERS

- UAL on portion not refunded
- Normal Employer Costs

Establish a Section 115 Trust to Pair with Pension Obligation Bond (POB)

- Initial savings directed to the trust
- Use those savings as a stabilization fund to mitigate the risks in the initial period of issuance

Work with Trust manager to establish annual funding amount

Capital Replacement

Large capital purchases not typically in City's Equipment Replacement Fund

- Typically Fire Apparatus (depending on type ~\$1M each)
- Body-worn Cameras (\$1.5M)
- Tasers (\$750K)

Approximately \$3M annual charge to fully enroll all Fire apparatus in Replacement Fund

Establish annual replacement budget, similar to other vehicle replacement budgets

- Example: Need to purchase two Fire Engines
- Lease at ~ 2.15% for 7 years
- Establish ongoing replacement budget in the amount of lease payments

Also model after PC Replacement Fund

Infrastructure

The May 2019 Budget Study Sessions included an Infrastructure Report Card presentation

Current condition generally scores better than State and National averages

Highlighted structural deficits associated with maintaining assets in “Good” condition resulting in continuous state of decline without additional investment

Need to establish condition targets

Estimated needs are based on inflating current spending or bid information across the system networks

State of City Infrastructure	City Report Card	Annual Capital Maint. Deficiency (10-year term)
Drinking Water (estimated) - Comprehensive condition assessment pending	B-	\$13,000,000
Wastewater (estimated) - Comprehensive condition assessment pending	B-	\$11,000,000
Regional Water Reuse (estimated) - Comprehensive condition assessment pending	C-	\$14,000,000
Transit - Bus replacement program not fully funded	C+	\$750,000
Roadways - PMP requires \$20M/yr for PCI = 65	C	\$5,800,000
Bridges (estimated) - Based on bi-annual Caltrans inspections	C+	\$4,400,000
Parks & Recreation (estimated) - Condition assessment underway - No current landscape services	C-	\$5,000,000
Dams - All facilities are in good condition (2021)	B	n/a
Telecom/Digital - Broadband and cellular services generally deficient	Unk	Unk
Building Facilities - Based on 2018 condition assessment	C	\$3,500,000

Extreme Events

Source of funds to pay for unbudgeted expenditures resulting from extreme events

- Emergency Operation Center (EOC) Activations
 - Fire, Public Safety Power Shutoff (PSPS), Natural Disasters

Current practice is to draw from Operating Reserves, replace with FEMA reimbursements

FEMA reimbursements can take months to years to occur

- Still waiting for Non-Congregate Sheltering (NCS) reimbursement dating back to March 2020
- Approximately \$3M to \$4M

Next Steps

Work with Departments and Long-Term Financial Planning and Audit Subcommittee to develop the following:

- Assessment of Risks
- Annual funding methodology for reserves
- Policy language for reserves

Return to Council for approval of policies

Questions?