



DATE: January 16, 2018

TO: Mayor and Members of the City Council

VIA: Kevin M. Miller, City Manager

FROM: Edmund Suen, Finance Director

SUBJECT: RECONFIRMATION OF GENERAL FUND RESERVE POLICY

RECOMMENDATION

It is recommended that the City Council/Estero Municipal Improvement District (City) Board of Directors by minute order reconfirm the General Fund Reserve Policy as established by Resolution No. 2010-33.

EXECUTIVE SUMMARY

On April 5, 2010, the City Council established the City's General Fund Reserve Policy establishing a minimum reserve threshold of 33-1/3% of budgeted annual operating expenditures, and established a target reserve range of 33-1/3% to 50% of budgeted annual operating expenditures in the annual Five-Year Financial Plan (see Attachment 1 – Resolution No. 2010-33). Over the past several years, the City has enjoyed both regional and local economic prosperity and seen its General Fund Balance (as of the end of FY 2016-2017) widen to \$43.40 million. After allotting \$647,000 for the forecasted structural deficit for FY 2017-2018 and a budgeted appropriation of \$2.06 million for the Employee Home Loan and Rental Assistance Programs, the General Fund Balance is anticipated to be at \$40.69 million. With a set aside of \$20.65 million for reserves per City Council's adopted policy (at the 50% operating expenditure level), the Unassigned General Fund Balance is anticipated to total approximately \$20.04 million by the end of the current fiscal year. As directed by the City Council at the November 20, 2017 City Council meeting, City staff is bringing back the adopted General Fund Reserve Policy for further review and discussion.

BACKGROUND AND ANALYSIS

The City's General Fund Balance is a commonly sought piece of information in a government agency's financial statements. As a generally accepted best practice, agencies commonly seek to maintain an adequate level of General Fund Balance by establishing a Reserve Policy to mitigate current and future risks and provide a safety net to respond to unexpected fiscal hardships such as local disasters, economic downturns (revenue shortfalls), external revenue attacks (e.g. California budget takeaways), and unforeseen operating or capital needs. Resolution No. 2010-33 was adopted by the City Council on April 5, 2010 establishing a General Fund Reserve of 33-1/3% of budgeted annual operating expenditures and a target reserve range of 33-1/3% to 50% of budgeted annual operating expenditures in the annual Five-Year Financial Plan.

As indicated earlier in this report, after setting aside \$20.65 million for reserves per City Council's adopted policy (at the 50% operating expenditure level), the Unassigned General Fund balance is anticipated to total approximately \$20.04 million at the end of the current fiscal year.

At the November 9, 2017 City Council Special Meeting (Study Session), City staff provided the City Council with a draft amendment of a revised Reserve Policy that identified potential uses of the City's General Fund Reserves and its Unassigned Fund Balance. Among potential uses of the Unassigned Fund Balance are infrastructure replacement in the event of a disaster, as well as funding of Capital Improvement Projects. The City Council deliberated on the matter and directed the City Manager to provide additional information regarding the replacement cost of the City's critical infrastructure. City staff has identified the City's five (5) bridges, a lagoon pump house and pump, four (4) water tanks, and forty-nine (49) sewer pump stations as such, with an estimated total replacement cost at \$268.2 million (see Attachment 2). It should also be noted, with the wave of U.S. disasters that included storms and wildfires, FEMA Administrator Brock Long recently urged that "more states and cities need *healthy cash reserves* and need to be prepared to push out emergency food and water."

Over the last several months, questions have been raised as to the potential use of the Unassigned Fund Balance for the Levee Protection Planning and Improvements Project (CIP 301-657). On November 20, 2017, City staff provided a table on the impact of supplemental funding (presumably Unassigned Fund Balance) on a \$90 million General Obligation Bond ballot measure to fund the Levee Project (see Attachment 3). An alternative to a supplemental funding is to use the Unassigned Fund Balance to fund any and all cost over-runs above the \$90 million estimated cost of the Levee Project.

It is important to note that the City has other capital improvement project needs. In the current fiscal year, the General Fund transferred \$1.9 million to the Capital Improvement Projects Fund. However, this amount is likely to increase significantly over time as the City approaches its 50th year of incorporation (e.g. the City's system of twenty-four (24) parks). The City also has significant liabilities, including its unfunded pension and post-employment medical benefits. Based on the latest information provided by CalPERS, the City's total unfunded pension liability is approximately \$69.2 million.

FISCAL IMPACT

There is no immediate fiscal impact from this report. Depending on direction provided by the City Council, City staff may bring forth a resolution revising the City's General Fund Reserve Policy (see Attachment 4 for reference to a draft policy).

Attachments:

- Attachment 1 - Resolution No. 2010-33 (General Fund Reserve Policy adopted on April 5, 2010)
- Attachment 2 - Critical Infrastructure
- Attachment 3 - Impact of Supplemental Funding on General Obligation Bond Tax Levy
- Attachment 4 - Revised General Fund Reserve Policy (Draft and For Discussion Purposes Only)