



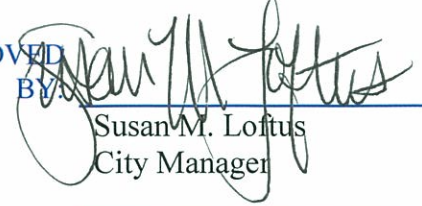
ADMINISTRATIVE REPORT

AGENDA ITEM #

552

MTG. DATE 11/7/11

APPROVED
BY


Susan M. Loftus
City Manager

TO: Honorable Mayor and City Council

DATE: October 25, 2011

SUBMITTED
BY:


Dave Culver, Finance Director

SUBJECT: Use of Operating and Contingency Reserves and Related Policies

Summary

At the June 20th meeting the City Council approved a resolution formalizing the existing practice for the City Manager to have authority to approve the use of the Operating Contingency. At that time, staff was requested to return to provide more detailed background on this topic.

History & Definition of Terms

A definition of terms is an important starting point in this discussion because in reviewing the history of the various reserves certain terms have at times been used interchangeably. It is also important to see how these various funding allocations have evolved over time.

The Contingency Reserve was the term used in the 1980's for a combination of a number of available reserve amounts and is referred to in the "Transfer of Funds and Requests for Unbudgeted Funds Policy" from 1981. Funding for a number of contingencies were all combined together in one large reserve. This Contingency Reserve evolved over time but initially included reserves intended for three purposes; a) funds anticipated for use in labor contract settlements, b) money set aside for unanticipated expenses occurring during the budget period and c) an emergency reserve in the event of a natural disaster or financial calamity.

This Contingency Reserve was changed in 1992 with the adoption of the 1992-94 Two Year Business Plan. In fact, it was at that time that funds in the larger commingled Contingency Reserve were split out into the following three areas.

- Funds for potential salary increases and labor contract negotiations were included throughout the budget within the various operating department budgets.

- A separate Emergency Reserve Fund was established in the amount of \$2 million to constitute the City's "reserve of last resort" which would be used for catastrophic reasons. This reserve, which is a separate fund, now includes both an Emergency Reserve and a Service Stability Reserve component (established in 1998) and has grown to over \$11 million.
- An Operating Reserve of \$500,000 has typically been appropriated annually (although the amount appropriated has gone as low as \$300,000) in the General Fund Non-Departmental section of the budget. This term is somewhat misleading in that these funds are not really a "reserve" but have been consistently budgeted for contingencies such as revenue shortfalls and/or unexpected expenditures. As a result, these funds have sometimes been referred to as an "operating contingency" rather than an "operating reserve" in different sections of the same budget document. These terms have been used interchangeably to describe the same budgeted amount.

Level of Authority for Use of Funds

The City Charter states, "At any time during the fiscal year the City Manager may transfer part or all of any unencumbered appropriation balance among programs within a department and, upon written request of the City Manager, the Council may by resolution transfer part or all of any unencumbered appropriation balance from one department to another". To be clear, transfers from one department to another or one fund to another have always required City Council approval. However, over time the practice has been followed of having the City Manager transfer funds budgeted in the General Fund Non-Departmental Operating Reserve to cover unanticipated departmental expenditures in excess of budget within departments in the General Fund without express City Council action. The former Finance Director was contacted about this Charter provision vis-à-vis the Operating Reserve. His recollection was that this Charter provision was not applicable to the use of Operating Reserve because a) it was not a transfer between departments as it was budgeted in the Non-Departmental category and b) the Expenditure Assumptions page in each Two Year Business Plan clearly spells out its intended use is to cover revenue shortfalls or unexpected expenditures. The \$500,000 appropriated each year by the City Council in the operating budget contingency is used in the event circumstances occur which would make it impossible to maintain current services within established targets.

Beginning with the 1996-98 Business Plan, the Expenditure Assumptions page in the budget documents included a bullet point which identified the amount of the Reserve. Although by practice the City Manager had authority for the use of these funds, no formal mention of this practice was identified. Beginning with the 2006-08 Business Plan, the document specifically states that this Operating Reserve may only be used with the approval of the City Manager.

It is important to note that the use of the contingency funds does not preempt the Purchasing Policy that dictates that any one expenditure or contract exceeding \$100,000 requires advance City Council approval. If any of the unanticipated expenditures were to have exceeded the \$100,000 City Council approval threshold, an Administrative Report would have been prepared and placed on an agenda at a formal meeting for Council approval prior to making the purchase or expenditure consistent with the Purchasing Policy.

Historical Use of Operating Reserve/Contingency

The attached summary identifies the department and purpose of unanticipated expenditures that required a budget transfer from the General Fund Non-Departmental Operating Reserve/Contingency. These budget transfers were generally made to cover operating deficits in department budgets at year end due to unanticipated expenditures. This action was necessary to avoid reporting any expenditures in excess of appropriations at June 30th of any given year which would otherwise result in an unfavorable audit finding in the management letter. Frequently, the transfers covered overtime expense for public safety, attorney fees, and/or special election costs as examples of unanticipated expenditures requiring the budget transfers at year end. In some cases overtime costs in public safety are often related to the number of employees injured in any given year and are on disability and/or workers' compensation. Given the restriction not to allow City Manager authority for transfers between departments, the use of the operating contingency funds does not assume there were no net General Fund expenditure savings during these years. In fact, the net savings ranged from \$1 million to \$7 million.

City Council Direction

In June the City Council formalized by resolution the practice of providing authority to the City Manager to approve the use of the operating budget contingency. Staff would like direction on whether the City Council is interested in retaining this authority or revising this practice.

Attachment A – History of Operating Reserve Transfers

Attachment B – Resolution No. 70 (2011) delegating authority to spend operating budget contingency to City Manager

OPERATING RESERVE HISTORY

FY	Dept		Transfer	Budget	Reserve Balance
2002	NA	Year of Eden conversion No detail on distribution		500,000	
			(414,000)		
		Sub-total		(414,000)	86,000
2003				500,000	
	Fire	Overtime,vacation,part-time,sick leave,benefit, laundry,auto maintenance	(120,000)		
		Sub-total		(120,000)	380,000
2004				500,000	
	Fire	Salary, overtime,laundry,education & training	(460,700)		
	Clerk	Part-time, professional services	(300)		
	Attorney	Attorney fee	(39,000)		
		Sub-total		(500,000)	0
2005				500,000	
	Fire	Overtime	(6,450)		
	Police	Overtime,part-time	(28,034)		
	Clerk	Part-time	(12,000)		
	Attorney	Attorney fee	(87,000)		
	CDD	Overhead charge	(75,000)		
		Sub-total		(208,484)	291,516
2006				500,000	
	Fire	Overtime -mutual aid deployment to Katrina (reimbursed)	(100,000)		
	Police	Salary,overtime,part-time/benefit	(400,000)		
		Sub-total		(500,000)	0
2007				500,000	
	Fire	Salary,overtime,benefit - partial brownout of E21 and mutual aid deployment (reimbursed)	(358,000)		
	HR	Part-time, professional services	(55,000)		
		Sub-total		(413,000)	87,000

FY	Dept		Transfer	Budget	Reserve Balance
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2008				500,000	
	Fire	Overtime -mutual aid deployment (reimbursed) auto maintenance	(99,000)		
	Police	Overtime, communication	(83,000)		
	Library	Part-time,books,ground maintenance	(96,000)		
	Clerk	Election	(93,000)		
	Attorney	Attorney fee,overtime,books	(19,000)		
	CDD	Workers Resource Center	(29,000)		
	HR	Part-time, professional services	(39,000)		
		Sub-total		(458,000)	
					42,000
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2009				500,000	
		Reserve not used	0		
		Sub-total		0	
					500,000
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2010				500,000	
	Fire Prev	Subsidy to fire prevention fund deficit	(113,117)		
	Clerk	Election	(47,276)		
	Attorney	Bargaining/labor attorney fee	(19,417)		
	CDD	Civic facility budget adjustment	(14,278)		
		Sub-total		(194,088)	
					305,912
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2011				500,000	
	CDD	Edge program	(75,000)		
	PD	Labor concession savings to be spread over several FY	(591,000)		
	Fire	Fire Chief salary reimbursement not included	(46,000)		
	Clerk	Unanticipated part-time staffing cost	(14,000)		
		Sub-total		(726,000)	
					* (226,000)

* \$226K is to be spread among other departments

CITY OF SAN MATEO
RESOLUTION NO. 70 (2011)

RECEIVED

APPROVING THE IMPLEMENTATION OF
"FUND BALANCE REPORTING AND
GOVERNMENTAL FUND TYPE DEFINITIONS"
INCLUDED IN STATEMENT NO. 54 ISSUED BY THE
GOVERNMENTAL ACCOUNTING STANDARDS BOARD

2011 JUN 15 P 3:08

OFFICE OF CITY CLERK
CITY HALL
SAN MATEO, CA

WHEREAS, in February 2009 the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) to improve the usefulness, including understandability, of governmental fund balance information; and

WHEREAS, GASB 54 provides more clearly defined fund balance categories and clarifies the existing governmental fund type definitions to provide greater transparency by improving comparability of governmental fund financial statements and to help statement users better understand the purposes for the reporting of a particular fund's use; and

WHEREAS, GASB 54 does not impact the amount of overall calculation of fund balances, but alters the components used to report the fund balances, taking into consideration the makeup and intended use of the various fund balances; and

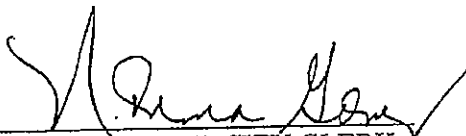
WHEREAS, the accompanying Administrative Report details the new fund balance classifications included in GASB 54 and staff recommends that the City Council approve the implementation of these new classifications;

NOW, THEREFORE, THE SAN MATEO CITY COUNCIL HEREBY RESOLVES that:

1. In accordance with California Environmental Quality Act (CEQA) Guidelines section 15061(b)(3), this action is not a project subject to CEQA in that it can be seen with certainty that it will not have an effect on the environment.
2. The implementation of new fund balance reporting categories included in Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" issued by the Governmental Accounting Standards Board, and summarized below, is approved:
 - a. Classifying governmental fund balances as nonspendable, restricted, committed, assigned and unassigned in accordance with the sources of revenue comprising the fund balances.
 - b. Committing fund balances not otherwise restricted in the special revenue funds to the purpose of the fund as specified when established.

- c. Committing the remaining fund balances in the Capital Improvement Program attributable to Council approved transfers from the General Fund to be used for the specified projects.
- d. Assigning the General Fund (10) operating budget contingency to the extent that the prior-year ending fund balance is needed to balance is needed to balance revenues and expenditures in the next year's budget and delegating the authority to spend the operating budget contingency to the City Manager.
- e. Assigning the General Fund (10) balance comprised encumbrances not lapsed and petty cash to their intended purposes.
- f. Establishing the hierarchy of expenditures from fund balance to be restricted, committed, assigned and unassigned.

ATTEST:


NORMA GOMEZ, CITY CLERK


JACK MATTHEWS, MAYOR