

AGENDA TITLE:

Consideration and possible action to adopt the amended City Council Policy No. 41, *Reserve Policies*.

RECOMMENDED CITY COUNCIL ACTIONS:

- (1) Adopt Resolution No. 2021-__ thereby amending City Council Policy No. 41, *Reserve Policies*, as approved by the City Council at the February 16, 2021 meeting.

FISCAL IMPACT: N/A

Amount Budgeted:	N/A
Additional Appropriation:	N/A
Account Number(s):	N/A

ORIGINATED BY: Vina Ramos, Deputy Director of Finance^{VR}

REVIEWED BY: Trang Nguyen, Director of Finance^{TR}

APPROVED BY: Ara Mihranian, AICP, City Manager^{AM}

ATTACHED SUPPORTING DOCUMENTS:

- A. Resolution No. 2021-__ (page A-1)
 - B. City Council Policy No. 41, *Reserve Policies* (page B-1)
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BACKGROUND AND DISCUSSION:

On February 16, 2021, the City Council unanimously approved the recommendations to revise City Council Policy No. 41, *Reserve Policies*. This evening, the amended policy is presented for adoption, via resolution, formally memorializing the City Council's February 16 action.

The salient revisions approved would provide more options for the City Council's consideration in the future, addressing the significant drop of General Fund transfers to the Capital Improvement Program (CIP) Fund in Fiscal Year 2020-21. Other revisions identified are mainly clarifying/cleanup language that is relevant and consistent with the City's current and best practices. In summary, the revisions to City Council Policy No. 41 *Reserve Policies* are as follows:

- Added clarifying language in the policy introduction;
- Added clarifying language and options for CIP funding:
 - (a) Clarified that the current and historical practice of General Fund transfer is from Terranea Resort's Transient Occupancy Tax (TOT) revenues only; and,
 - (b) Added the option for the City Council to decrease the General Fund TOT transfers to CIP Fund by adjusting or suspending the reduction of transfers based on the cumulative increases in the public safety contract when the General Fund will not have a balanced budget;
- Added clarifying language for the General Fund transfers to CIP Fund using "unrestricted excess reserve" instead of "favorable expenditure variance";
- Increased the CIP Fund reserve limit from \$3 million to \$5 million; and,
- Changed the reserve limit of the Equipment Replacement Fund (ERF).

To view the full staff report presented to the City Council on February 16, 2021, visit https://rpv.granicus.com/MetaViewer.php?view_id=5&clip_id=3853&meta_id=91006.

ALTERNATIVES:

In addition to the Staff recommendation, the following alternative actions are available for the City Council's consideration:

1. Identify further amendments to City Council Policy No. 41 and direct Staff to return with revisions.
2. Take other action, as deemed appropriate.
3. Do not adopt the Resolution thereby not approving amendments to City Council Policy No. 41.

RESOLUTION NO. 2021-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO PALOS VERDES, CALIFORNIA AMENDING COUNCIL POLICY NO. 41, RESERVE POLICY, ADDING, CLARIFYING LANGUAGE AND OPTIONS FOR FUNDING THE CAPITAL IMPROVEMENT FUND AND INCREASING ITS RESERVE LIMIT TO \$5 MILLION.

WHEREAS, in 2008, the City Council adopted the City Council's Policy No. 41, Reserve Policy; and

WHEREAS, in 2010, the City Council amended the City Council's Policy No. 41, Reserve Policy, Section B, Capital Improvement Fund, to allow for change in the way the Capital Improvement Fund reserve is funded; and

WHEREAS, in 2011, the City Council amended the City Council's Policy No. 41, Reserve Policy, for compliance with the Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions; and

WHEREAS, in 2013, the City Council amended the City Council's Policy No. 41, Reserve Policy, Section B, Capital Improvement Fund, adding a funding mechanism for the Capital Improvement Projects (CIP) Reserve; and

WHEREAS, on February 16, 2021 the City Council accepted the amended City Council's Policy No. 41, Reserve Policy (Attachment B); and

NOW, THEREFORE, THE RANCHO PALOS VERDES CITY COUNCIL DOES HEREBY RESOLVE, DETERMINE, AND ORDER AS FOLLOWS:

Section 1: The forgoing recitals are true and correct and are incorporated herein by this reference.

Section 2: The City Council's Policy No. 41, Reserve Policy, as modified in Attachment B is approved and adopted by the City Council.

PASSED, APPROVED and ADOPTED on this 2nd day of March 2021.

Mayor

Attest:

City Clerk

State of California)
County of Los Angeles) ss
City of Rancho Palos Verdes)

I, Emily Colborn, City Clerk of the City of Rancho Palos Verdes, hereby certify that the above Resolution No. 2021-__ was duly and regularly passed and adopted by the said City Council at a regular meeting thereof held on March 2, 2021.

City Clerk

CITY COUNCIL POLICY

NUMBER: 41

DATE ADOPTED/AMENDED: 12/02/08 (Amended 03/02/2021)

SUBJECT: Reserve Policies

POLICY:

The City utilizes a variety of accounting funds for accounting and budgeting for revenues and expenditures of the City. Appropriations lapse at each fiscal year-end. The City Council may authorize continued appropriations and purchase orders carryover for certain incomplete capital projects, other one-time projects and services which have not been billed or completed. Remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the City. It is appropriate that reserve policies for the City be established for each of the various funds, that the purpose of these reserves be designated, and that dollars available in excess of the reserve amounts be appropriately and effectively utilized. This policy governs the City's reserves as follows:

A. General Fund

The City will maintain a minimum fund balance of at least 50 percent of annual operating expenditures in the General Fund. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Cash flow requirements.

B. Capital Improvement Fund

The City will maintain a minimum of \$5 million in the Capital Improvement Projects (CIP) fund as a reserve for major improvement projects related to roadways, storm drains, parks, buildings, rights-of-way, and the sewer system. Subject to the annual budgeting process, the CIP reserve will be funded, to the extent possible, by allocating the following to the CIP fund:

1. Transient Occupancy Tax (TOT).
 - a. Pursuant to the City's Municipal Code Chapter 3.16, Transient Occupancy Tax is collected from hotels that are located within the City. "Hotel" means any structure, or any portion of any structure, which is occupied or intended or designed for occupancy by transients for dwelling, lodging or sleeping purposes, and

includes any hotel, inn, tourist home or house, motel, studio hotel, bachelor hotel, lodging house, rooming house, apartment house, dormitory, public or private club, mobile home or house trailer at a fixed location, or other similar structure or portion thereof.

- b. The tax imposed in any hotel is based on temporary occupancy. "Temporary" means a period of thirty consecutive calendar days or less, counting portions of calendar days as full days.
 - c. General Fund transfer amounts to the CIP are equal to the TOT collected from the Terranea Resort, the main source of TOT revenues. During the annual budget process if it is determined that the General Fund will not have a balanced budget, the City Council may reduce the transfer amount to the CIP by a portion or all of the increases in the public safety contract.
2. If deemed necessary, the City Council may allocate all or a percentage of the prior year's General Fund unrestricted excess reserve during budget adoption process.

All interest earnings in this fund will be used for capital improvement projects.

C. Equipment Replacement Fund

The City will maintain a minimum reserve of 75% but no more than 100% of the estimated replacement cost for equipment assets that are due to be replaced in the City's next fiscal year.

D. Water Quality Flood Protection Fund

Project spending in the Water Quality Flood Protection (WQFP) fund fluctuates year to year. The Storm Drain User Fee is a source of funding for these projects. To avoid a fluctuating Fee, the City will maintain retained earnings over the life of the WQFP fee to establish rate stabilization, thereby enabling fund availability for scheduled projects and maintenance.

E. Building Replacement Fund

The City will maintain retained earnings in this fund to accumulate monies and interest earnings to finance major improvements (e.g. roofing), and partially provide for future replacement of City owned buildings.

F. Utility Undergrounding Fund

The City will maintain retained earnings in this fund to accumulate monies for relocating utility poles and lines on City arterial roadways underground, as well as provide residents assistance with the process leading to utility undergrounding in residential areas of the City.

G. Street Maintenance Fund

The City will maintain a minimum of one year's appropriations for road maintenance on Palos Verdes Drive South in the landslide area.

H. Habitat Restoration Fund

The City will maintain a minimum of \$50,000 in this fund as required by the National Communities Conservation Plan (NCCP) for emergency use for habitat restoration purposes in addition to maintaining any interest earnings.

I. Subregion One Maintenance Fund

As part of the development agreement for Subregion One, the developer provided \$750,000 as an endowment to generate interest earnings for future maintenance of the open space area in Subregion One.

J. Improvement Authority Abalone Cove Fund

In connection with the Horan lawsuit, the Redevelopment Agency's Reimbursement and Settlement Agreement with property owners and the County stipulated that \$1,000,000 of County loan proceeds was to be deposited in the Abalone Cove Maintenance Nonexpendable Trust Fund of the Joint Powers Improvement Authority. Interest earnings from this deposit are used to maintain landslide abatement facilities in the Abalone Cove area of the active landslide, except sewers in accordance with the reimbursement and settlement agreement

Reserve levels will be reviewed annually during the budget process. Any recommended adjustments to reserve levels will be presented to City Council for its consideration during the annual budget process.

COMMITMENTS AND ASSIGNMENTS OF FUND BALANCE:

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides the City with a method to self-classify fund balance for financial statement reporting purposes.

A. Committed Fund Balance

Fund balance may be committed to specific purposes using its highest level of decision-making authority, the City Council. It is the City Council's policy that commitments of fund balance for a fiscal year must be adopted by resolution prior to fiscal year end. Amounts that have been committed by the City Council cannot be used for any other purpose unless the City Council adopts another resolution to remove or change the constraint.

B. Assigned Fund Balance

The General Fund balance may be assigned for amounts the City Council intends to use for a specific purpose. It is the City Council's policy that assignments of fund balance for a fiscal year must be approved by

minute-order of the City Council prior to the fiscal year end. Any changes to assignments must also be made by minute-order of the City Council.

It is the City Council's policy to spend classified fund balance in the following order when amounts in more than one classification are available for a particular purpose:

1. Restricted Fund Balance – amounts constrained to specific purpose by their providers through constitutional provisions or enabling legislation. Examples include grants, bond proceeds and pass-through revenue from other levels of government.
2. Committed Fund Balance – amounts constrained to specific purpose by resolution of the City Council.
3. Assigned Fund Balance – amounts in the General Fund which are intended to be used for a specific purpose, expressed by minute-order of the City Council.
4. Unassigned Fund Balance – amounts available for any purpose in the General Fund.

BACKGROUND:

Reserves, rainy-day funds, or contingency funds are a prudent fiscal policy and an important credit factor in the analysis of financial analysis and management. Local governments have experienced much volatility in their financial stability due to the economy, natural disasters, terrorist attacks, and actions taken by state government which includes taking revenues from local governments to resolve state budget problems. California cities are at an even greater disadvantage than the rest of the country due to the unique regulations imposed by Proposition 13, and the inability to raise property taxes if the need would arise. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include, but are not limited to: cash flow requirements, economic uncertainties including downturns in the local, state or national economy, local emergencies and natural disasters, loss of major revenue sources, unanticipated operating or capital expenditures, uninsured losses, tax refunds, future capital projects, vehicle and equipment replacement, and capital asset and infrastructure repair and replacement. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of the City.