



## Legislation Details (With Text)

**File #:** ID#15-320    **Version:** 1    **Name:**  
**Type:** Action Item    **Status:** Passed  
**File created:** 4/15/2015    **In control:** City Council  
**On agenda:** 5/14/2015    **Final action:** 5/14/2015  
**Title:** \*\*\*RESOLUTION - Enacting changes to the Reserve Management Act  
**Sponsors:** Finance Department  
**Indexes:**  
**Code sections:**  
**Attachments:** 1. Revised Reserve Management Act 5.14.15 Agenda final.pdf, 2. Resolution.pdf

Date	Ver.	Action By	Action	Result
5/14/2015	1	City Council	adopted	Pass

## REPORT TO THE CITY COUNCIL

**DATE:** May 14, 2015  
**FROM:** BRUCE RUDD, City Manager  
City Manager's Office  
**BY:** MICHAEL LIMA, Finance Director/Controller  
Finance Department

**SUBJECT:**  
\*\*\*RESOLUTION - Enacting changes to the Reserve Management Act

## RECOMMENDATION

It is recommended that City Council approve the attached resolution and legislation, which makes several changes to the Reserve Management Act (RMA).

## EXECUTIVE SUMMARY

The RMA was adopted by City Council on March 31, 2011. The RMA established several reserve funds for the City's operations, specified the levels at which those reserves would be funded, and articulated the ways those reserves could be utilized. As the RMA has been implemented, management has noted several ways in which the RMA could be refined to enhance operational utilization, while maintaining the strong controls that were inherent in the original RMA. The proposed revisions will accomplish that goal.

## BACKGROUND

In the absence of formal reserve policies, Council adopted the RMA on March 31, 2011. The RMA required the City to establish several reserve funds, including two for the General Fund (the Committed General Cash Reserve for Economic Uncertainties and the Committed General Cash Reserve for Contingency Stabilization). The RMA also specified the levels at which those reserve funds would be funded, and the ways in which those reserves could be used.

As the RMA was adopted during a time when the City was suffering through financial difficulties, the City was not able to provide the resources needed to fund the various reserve funds specified in the RMA. With the City's financial condition improving, it has now become possible to utilize the RMA's requirements and structures. However, as management and staff have implemented the RMA's provisions, it has become clear that the RMA should be refined to enhance operational utilization, while still maintaining the controls that were the RMA's defining characteristic.

Working with Councilmember Brand, management and staff have prepared several revisions to the original RMA. Key among the proposed changes are:

- 1) Permitting the use of reserve funds to offset funds with negative cash balances at fiscal year-end.** At fiscal year-end, there are typically several grant funds that have negative cash balances as the result of delayed reimbursements from the granting agency. In order to rectify these negative cash balances, staff utilizes a short-term loan from an eligible fund with a positive cash balance. However, the RMA did not specify that the reserve funds could be utilized for year-end balancing purposes, although that was the intention of its authors. The revised Act will clarify that use of these funds for year-end balancing purposes is permissible under the following conditions:

- a. Loans only apply to grant funds needing fiscal year end cash balancing
- b. Loans must be repaid within 90 days
- c. Loans require a five-vote super majority approval by Council before they can be made

Additionally, the ability to use the reserve funds for year-end balancing purposes will lapse once the Committed General Cash Reserve for Economic Uncertainties and the Committed General Cash Reserve for Contingency Stabilization are funded at the levels required under this RMA. All changes are on RMA pages 9 -10 (Article VI, Sections 1 & 2).

- 2) Eliminating language which called on a "restoration of services" as a transition mechanism for building the reserves.** The RMA originally called for "restoration of service levels" as a transition criteria for establishing the Committed General Cash Reserve for Economic Uncertainties and the Committed General Cash Reserve for Contingency Stabilization. During implementation, it was determined that "restoration of services" was too subjective a term to be effectively utilized. The revised RMA eliminates this criterion from all transition plans. Please see RMA pages 13 and 15 (Article VII, Sections 3 & 4).

- 3) Replacing "fund balance" with "cash reserve" throughout the RMA.** "Fund Balance" has a very specific meaning in governmental accounting; namely, the difference between assets and liabilities. However, that difference can be made up of any asset; including cash, accounts receivable, or a building (or a combination of all three). As the City uses a cash based budgeting system, it is more appropriate to restrict the reserves to cash and not the broader "fund balance". Thus, the term "fund balance" has been replaced with "cash reserve." Making this change will permit funds established under this act to be used for budgetary purposes, while still maintaining the Council vote requirements and other restrictions that were part of the original RMA.

- 4) Establishing minimum cash threshold goals in every fund, not only the reserve funds.** These minimum goals would replace cash threshold requirements specified by the original RMA. Changing the focus of this section from maximum levels to minimum levels would better align this section with other sections of the RMA. See RMA Article IV (page 7).

- 5) Adding new reserve funds for the Facilities Capital Reserve.** The original RMA listed one Facilities Capital Reserve fund to be used for improvements on all City facilities. This language conflicted with restrictions on the uses of Enterprise Department funds. The revision sets up three types of Facilities Capital Reserves:
  - a. A General Fund Facilities Reserve for facilities housing General Fund departments
  - b. A Facilities Reserve in each Enterprise fund
  - c. A joint General Fund/Enterprise fund Reserve for facilities housing both General Fund and Enterprise fund departments

All of these changes can be found in RMA Article X (page 17).

- 6) Changing the funding formula for the Technology Related Cash Reserve.** The original RMA called for a single Technology Reserve, which could be used for either hardware or software purchases. That structure left open the possibility that the Reserve's funds could be used entirely for either hardware or software, thereby

making it possible that no funds would be available for the other category should the need arise. To eliminate this scenario, the revised RMA calls for a cash reserve for hardware acquisitions and a cash reserve for software acquisitions. See RMA Article XI (page 18-19).

In addition to those major changes, there are several minor text changes to the Act to enhance readability and standardize formatting.

If Council approves the proposed revisions to the RMA, the revised RMA will go into effect upon the Mayor's signature. Should this RMA be approved, staff anticipates coming back to the City Council at the end of the fiscal year seeking approval to borrow an amount from the reserves in order to balance the cash position of several grant funds.

## **ENVIRONMENTAL FINDINGS**

By the definition provided in the California Environmental Quality Act Guidelines Section 15378, this item does not qualify as a "project" and is therefore exempt from the California Environmental Quality Act Requirements.

## **LOCAL PREFERENCE**

Local preference applies only to competitive bid awards which has no relevance to this particular item.

## **FISCAL IMPACT**

There is no immediate fiscal impact by approving this RMA. However, funding the reserves mandated by this RMA may have an impact on future City budgets.

Attachment: Resolution