



**CITY OF MODESTO
COMMITTEE AGENDA REPORT**

**Budget Workshops
May 17-21, 2010**

May 4, 2010

TO: Finance Committee
Brad Hawn, Chair
Garrad Marsh, Vice-Chair
David Geer, Member

FROM: Greg Nyhoff, City Manager

SUBJECT: General Fund Reserve Level

CONTACT: Gloriette Beck, Director of Finance, gbeck@modestogov.com, 577-5371

DESCRIPTION:

Consider making a recommendation to the City Council regarding the General Fund reserve level for fiscal year (FY) 2009-10 and FY 2010-11. (Funding Source: General Fund)

FISCAL IMPACT:

By Council policy, the General Fund reserve is set at eight percent (8%) of the Fund's total operating expenses. In adopting the budget for FY 2008-09 and FY 2009-10, Council lowered the required reserve to seven percent (7%) for those years. While the actual dollar amount fluctuates depending on total operating expenses, one percent is roughly the equivalent of \$1 million.

BACKGROUND:

The City Council establishes the reserve level for various funds based on the needs of the City. In the utility funds, the adopted reserve level is equal to 25% of operating costs to ensure sufficient funds are available to handle fluctuations in utility billing amounts. On the other hand, the General Fund's reserve level for years was set at five percent (5%) and more recently, at eight percent (8%).

The Mayor's Budget Message for FY 2010-11 clearly outlines the continuing budget challenges faced by the City. Dwindling revenues in two of the City's major General Fund revenues – sales tax and property tax - have significantly stretched the City resources and caused reductions in every General Fund program area including public safety. Understanding the need to maintain core City services during these poor economic times, the Mayor has recommended maintaining a flat \$7 million dollar reserve for the current fiscal year (2009-10) and upcoming fiscal year (2010-11) to prevent further erosion of these services.

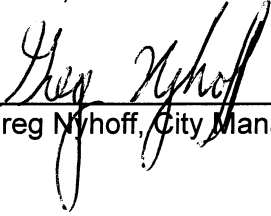
CEQA/NEPA REQUIREMENTS:

Not applicable.

STRATEGIC PLAN ELEMENT:

This action supports Strategic Plan Element No. VII. - The City has balanced budgets with healthy reserves and highly efficient, cost-effective systems, leveraging private capital investment for public benefit.

Approved by:



Greg Nyhoff, City Manager



**CITY OF MODESTO
COMMITTEE AGENDA REPORT**

**Budget Workshops
May 17-21, 2010**

Date: May 6, 2010

TO: Finance Committee
Brad Hawn, Chair
Garrad Marsh, Vice-Chair
David Geer, Member

THROUGH: Greg Nyhoff, City Manager

FROM: Dee Williams-Ridley, Director of Human Resources
Gloriette Beck, Director of Finance

SUBJECT: Insurance Funds Review and Policy Direction

CONTACT: Barbara Santos, ERC, bsantos@modestogov.com 577-5466

DESCRIPTION:

Consider providing policy direction regarding:

1. The initiation of a holiday in the General Fund to save the annual payment to the Employee Benefit fund for employee leave cash-outs made in FY 2010-11.
2. A holiday on the additional General Fund contribution which helps to keep the unfunded liability in retiree costs from growing.

(Funding Source: Potential General Fund Impact)

FISCAL IMPACT:

Employee Leave Cash-outs - Payouts for unused leave that take place when an employee leaves the city are funded from the Employee Benefits Fund and are reimbursed to the EBF at year-end by the various funds. This proposal would exempt the General Fund from the requirement to reimburse the EBF during FY 10-11. There is a sufficient balance in the cash account based on General Fund contributions to cover these unreimbursed costs.

Retiree Related Costs - A professional actuarial study of retiree health liabilities was performed and published in January of 2007. The 2007 study recommended funding of the ARC (Annual Required Contribution) at \$5.7 million for FY 2007-08. The City's charge to the departments has been \$3.5 million per year for FY 2004-05, through FY 2009-10.

To keep the unfunded liability from growing, an additional General Fund contribution of \$953,545 was added in FY 2006-07. However, financial constraints have prevented this from occurring since that time. This proposal continues the liability payment holiday for the General Fund into FY 2010-11.

BACKGROUND:

A number of benefit costs run through the Employee Benefits Fund (EBF) as pure pass-through transactions. These pass-through costs such as deferred compensation, PERS and Medicare are not material to the fund liability and are not addressed in this report.

The most significant costs accounted for in the EBF are the (a) cash payments made to employees for their accumulated vacation and holiday hours upon separation from service and (b) cash payments and health benefits provided to employees upon retirement based upon their accumulated sick leave balances.

The City does not make payments into the EBF to reflect paid leave, and separation cash-outs earned. Instead, the City finances these separation costs on a pay-as-you-go basis. As of June 30, 2009, the Statement of Net Assets reflects a liability for compensated absences (vacation, holiday and compensated time off) in the amount of \$11.6 million and a liability for post-employment retirement benefits in the amount of \$41 million. Fund assets of \$18.5 million result in total net assets of negative \$35 million.

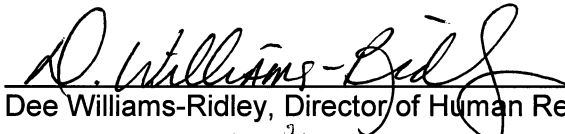
Health-based benefits paid from the EBF include cash payments to firefighters and health insurance contributions for other retired employees. Retiring firefighters receive payments equal to 90% of their first 2,000 hours of accumulated sick leave valued at their regular rate of pay.

For all other employees, the Sick Leave Conversion benefit allows employees (except firefighters) to convert 90% of their first 2,000 - 2,200 hours of accumulated sick leave (depending on bargaining unit) into a retiree health insurance contribution. Every 8 hours of accumulated sick leave is then converted to one month of the City's health insurance contribution. The contribution is equal to the contribution paid by the City to its active employees. City employees who may be eligible for the Sick Leave Conversion benefit currently have accumulated sick leave balances totaling 470,000 hours.

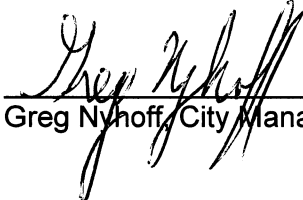
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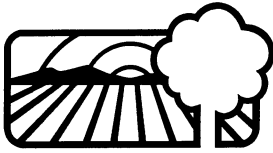
Gloriette Beck, Director of Finance



Dee Williams-Ridley, Director of Human Resources



Greg Nyhoff, City Manager



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David Geer, Member

THROUGH: Greg Nyhoff, City Manager

FROM: Gloriette Beck, Director of Finance
Dee Williams-Ridley, Director of Human Resources

SUBJECT: Workers Compensation Premium Payments

CONTACT: Mary Akin, Risk Manager, makin@modestogov.com 577-5251

DESCRIPTION:

Consider providing policy direction regarding:

1. The initiation of a rate holiday for all funds that make an annual payment into the Worker's Compensation Fund for FY 2009-10 and FY 2010-11.

(Funding Source: Potential General Fund Impact)

FISCAL IMPACT:

For the 2009-2010 fiscal year, the total premium assessments to all funds is \$4.5 million with the General Fund contributing approximately \$3.6 million. By allowing all funds and not just the General Fund to forego paying half of their premium assessment, the Workers' Compensation Fund will end FY 09-10 with approximately \$18 million in assets and \$18 million in liabilities. This half year rate holiday will result in savings to the General Fund of \$1.8 million and a proportional savings to the non-general funds that pay premiums into the Workers' Compensation Fund.

For the 2010-2011 fiscal year, the total premium assessments to all funds is \$4 million with the General Fund contributing approximately \$3.3 million. Allowing all funds to forego paying half of their premium assessment will result in savings to the General Fund of \$1.65 million and a proportional savings to the non-general funds that pay premiums into the Workers' Compensation Fund. The Workers' Compensation Fund will likely end FY 10-11 with a net assets deficit; however the existing cash balances in the fund will be sufficient to continue payment of actual claim costs.

BACKGROUND:

The city self-assesses a charge to all programs with employees to cover the cost of providing workers compensation benefits. The amount charged to each program is based on a fixed percent of the total salaries paid out and a factor assigned using the actual claims history of the program's employees. For the 2009-2010 fiscal year, the total premium assessment to the General Fund is approximately \$3.6 million. By allowing the General Fund to forego payment of this amount, the Worker's Compensation Fund deficit will increase while the existing cash balance will be drawn lower in response to the payment of actual claim costs in the absence of this payment. The Workers Compensation Fund has a sufficient cash balance to allow a one-time holiday to be provided to the General Fund.


Approved by:



Gloriette Beck, Director of Finance



Dee Williams-Ridley, Director of Human Resources



Greg Nyhoff, City Manager

City of Modesto Financial Policies

1. Budget Adoption Level: The city wide, legally adopted level for the budget of any program is by department at the Fund level.
2. General Fund Reserve: The Council has established the unappropriated reserve's minimum level to be 8% of the current appropriations for operating expenditures and operating transfers-out.
3. Forecasting Model: For the General, Enterprise, Internal Service and Capital Project and other major funds the Finance Department will maintain either a 5 or 10-year financial forecasting model to assess the city's ability to respond to changes in anticipated revenue levels, capital improvement program needs and changes proposed in operating costs. (the use of a 5 or 10-year model will depend on the conditions that apply to each fund)
4. Enterprise Funds and other Non-General Fund Operations: These activities should be self-supporting and should maintain reserve levels that are adequate to protect against fluctuations in revenue and expenditure levels. Activities that deviate from this requirement shall be identified for the City Council annually at the time of budget adoption. Exempt from this requirement are those funds that account solely for grant funds.
5. Inter-fund Loans and Loans to Component Units: Loans between funds and loans to the RDA and other component units of the city should be considered in light of a multi-year business plan that demonstrates a reasonable ability to repay the loan. All inter-fund loans and loans to component units, either existing or proposed, shall be identified for the City Council at the time of budget adoption. Generally, inter-fund loans and loans to component units shall be established with a repayment deadline that reflects the earliest feasible opportunity for repayment of the loan. Interest rates charged on the loan shall be based on the actual rate of return earned by the city's investment portfolio during the 12-month period immediately preceding a payment date.
 - a. Note that the terms and conditions for existing loans between the City and the Redevelopment Agency are governed by one or more separate resolutions adopted at the time the loans were approved.
6. Interest Allocation: Interest shall be allocated quarterly to all funds based on their average monthly balances during each quarter.
7. Direct Charges between Funds: Costs charged between funds such as force-account labor and other direct costs shall be charged on the basis of actual cost and not on the budgeted amount, unless a separate contract exists between the managers of the two programs allowing the use of the budgeted amount as the basis for the charge.

8. Inter-fund Transfers: Unless direction is given at the time an inter-fund transfer is approved that the amount to be transferred between funds is not subject to adjustment based on a share of cost formula, all inter-fund transfers shall be based upon the sending fund's pro rata share of any project costs or other obligation that is the basis for the transfer. Therefore, a reconciliation of the share of costs allocable to the fund(s) from which resources are to be transferred shall be performed prior to the year-end closing of the city's financial records and shall become the basis for determining the actual amount of any resources to be transferred. It is the intent of this policy that any transfers designed to provide a subsidy to the operations of another fund shall not exceed the amount needed to provide sufficient resources to make revenues equal expenditures unless other direction is provided by the City Council.

All inter-fund transfers and their purpose shall be identified to the Council annually, at the time of the budget adoption.

9. Multi-year appropriations: Appropriations for certain grants and on-going Capital Improvement Program projects that were authorized in previous years and that are not fully expended shall be deemed valid until revoked. Appropriations related to certain developer-funded expenditures may also be treated as multi-year appropriations.

10. Fund Replacement Reserves: In order to provide future resources for the replacement or repair of depreciable assets, each fund shall establish a list of depreciable assets, including useful lives and replacement costs that will determine the amount to be set-aside annually to allow the timely replacement or repair of these assets. Each program manager shall also establish a plan for funding the reserve and shall disclose the adequacy of the reserve level annually to the City Council as part of the annual budget adoption process.

11. Budget Adjustment Authority: The following budgetary adjustment actions are delegated to the parties shown below.

a. City Council

- i. Appropriation of undesignated reserves
- ii. Appropriation of new revenues
 1. Does not include Developer Payments
 2. Does not include private donations or grants made to the Fund Development Program of the Parks, Recreation, & Neighborhoods Department for specified purposes of less than \$25,000
- iii. Budgeting inter-fund transfers
 1. Does not include adjustments to budgeted transfers where the intent is to subsidize an enterprise operation as shown in item (x) under the City Manager's budget adjustment authority shown on page 3
- iv. Creation of inter-fund loans
- v. Creation of, or increase in, any multi-year appropriation except for the allocation of interest
- vi. Addition of permanent staff positions

- vii. Appropriation of payments for new indebtedness including operating leases
- viii. All other budgetary actions not delegated to another official

City Manager

- i. Transfer appropriations between departments within a fund
- ii. Changing any capital equipment appropriation
- iii. Changing appropriations for temporary agency labor
- iv. Changing any CIP line item appropriation
- v. Transfer appropriations to or from salary line items
- vi. Appropriate reserves for litigation on a case-by-case basis
- vii. Revoke multi-year appropriations
- viii. Adjust operating program appropriation levels at his/her discretion to maintain the required 8% reserve level and any reserve levels for non-GF funds
- ix. Transfer appropriations from a primary capital project to create or modify the budget of a related secondary capital project without increasing the total appropriations
- x. Transfer appropriations between two or more related secondary capital projects without increasing the total appropriations
- xi. Close Capital Improvement Program projects
- xii. Adjustments to Inter-fund transfers intended to balance enterprise fund operations where the cumulative total of any adjustment does not increase the original City Council approved appropriation by more than \$50,000
- xiii. Appropriate Developer Payments not previously budgeted
 - 1. Annexation Deposits
 - 2. Special District Formation Deposits
 - 3. Developer Deposits to be recognized as revenue
- xiv. Appropriate private donations or grants made to the Fund Development Program of the Parks, Recreation, & Neighborhoods Department for specified purposes up to \$25,000

b. Finance Director

- i. Appropriate unbudgeted grant interest
- ii. Revise the allocation of Internal Service Fund charges between departments, provided that the total allocated amount does not increase (any such changes to the allocation shall not result in an increase or decrease to the total amount of discretionary appropriations provided to the affected department(s))
- iii. Make technical budget corrections to implement the intent of Council-approved actions and resolutions
- iv. Transfer fiscal appropriations between sub-funds of a single fund (except where this changes appropriation amounts for temporary agency labor and/or capital equipment purchases over \$5,000)

- c. Department Director
 - i. Transfer appropriations between non-salary line items within a department, within a single fund (excludes appropriations related to capital equipment, capital improvement program projects and temporary agency labor)
 - ii. Acting as a designee of the City Manager, the Parks, Recreation, & Neighborhoods Director shall be authorized to appropriate private donations or grants made to the Fund Development Program of the Parks, Recreation, & Neighborhoods Department for specified purposes up to \$25,000.00

For Capital Improvement Program (CIP) policies and procedures please see the CIP budget binder.