



BUDGET ADVISORY COMMITTEE

Monday, December 18, 2017

6:00 pm

City Council Chambers

150 S. Palm Avenue

- I. Call to Order/Roll Call – 6:00 pm
- II. Review/Modification of Agenda Items for Discussion
- III. Review and Approval of the Minutes of the December 4, 2017 Meeting
- IV. Oral Communications from the Audience on Items not on the Agenda
- V. Reports/Discussion Items (Public is offered opportunity to speak prior to Action)
 - a. Departmental Presentations (Development Services)
 - b. Reserve Policy and Priority Expenditures
 - c. Financial Model Update
 - d. Updated Financial Planning Schedule
- VI. Items Requested for Next Budget Advisory Committee Meeting (January 8th)
- VII. Adjournment – 8:00 pm

**Budget Advisory Committee Meeting
Meeting Minutes
December 4, 2017**

I. Call to order

Robin called the meeting to order at 6:03.

Attendees:

Community Members: Robin Austin, David Phillips, Michele Sanchez, Joe Raden, David Lopez, Karla Perez

Staff Representatives: Sean Grayson (GCEA), Tony Brandyberry (RMMA), Joe Powell (Fire Management), Ryan Cathy (Fire 3688), Richard Royce (RPBA & RPBA Management)

Absent:

Stacy Augustine, Anna Gonzalez, Lupe Camacho, Lena Montes & Thad Coffing (RCEA)

II. Review/Modification of Agenda items

No changes from Committee

III. Review and Approval of the Minutes of the November 6, 2017 Meeting

David moved to approve the minutes to the agenda, Richard 2nd with corrections as indicated; vote was unanimous.

Corrections:

Joe R. added a sentence in paragraph for Exemption vote, after 1st sentence: "Mr. Raden left the room and did not participate in the discussion or the vote."

IV. Oral Communications: None.

V. Reports/Discussions:

Robb went over Council Action from Council Meeting of November 28th. He explained that staff made the decision to pull the item, based on concerns from several Council Members prior to the meeting. So it will go back on for January 9th meeting.

Matt asked Robb to ask the City Attorney about whether a Citizen Group wanted to start an Initiative to get the UUT on the ballot. Will they have to follow the same rules and process.

Robb went through explaining what the Council's questions were:

Is our Reserve too high?

What are the priority expenditures for that money?

Should we be using it to pay down some of these long term obligations?

Should we be using it for capital outlay?

Should we be using it for other purposes?

What other cities do
Why it should be set a certain level

The Committee is concerned that although they addressed the concerns prior to making the recommendation, Council still wanted it to come back to the group.

Robb explained that Council wants to hear from the Committee what they believe the Reserves should be. Staff will be providing a pretty extensive report for the Committees consideration at the next meeting

The Committee's consensus was that they had agreed to leave the Reserves at the current levels. They are concerned that the Reserves won't last long.

Council members had other questions, such as the Exemptions, the permanency of the Tax, as well as other questions. The other focus is they now want to see more analysis on the operating funds, the operating surplus that is set aside for emergencies for operating expenses.

February 27th is the deadline to get item on the June ballot.

Dennis Barton asked: Robb let's say you bring back the proposal and you say that this is the options that are available on the 50% Reserves, and what I'm hearing, and correct me if I'm mistaken, what I'm hearing that the Council wants is "We will throw in options and want the Budget Advisory Committee to bless these options, if we decide to go that way".

Is it reasonable that the Budget Advisory Committee could say NO.? We understand that there are options and this is the way you want to go. The Budget Advisory Commission strongly suggests or strongly recommends that the 50% Reserve be maintained until such time as alternative funding sources are found and we are not going to bless these alternatives. If you want to make that decision that is your elected privilege be responsibly fiscal, but as a citizen or a citizen's committee, we're not going to recommend that.

Is that possible?" Robb said yes. So you could go ahead a make your recommendation. So you could go ahead and make it look good.

Joe R. would like a word for word extract of what Denis said.

What is the next hurdle that we need to get over prior to the January 9th meeting?
Some of them don't want to say that we are in a Fiscal Emergency

The Budget committee wants it back on the next meeting, but Robb said that they have given up direction to wait until January.

The Committee will wait on Robb's paperwork to come, which will be the same as what you are going to give them? Robb said it will be more detailed and give Council options and recommendations from the Committee.

David asked about the firm that is defending us with the Tank Farm. Can they come in and give us a report on how it's going. It seems that that is the only alternative if the U tax doesn't go through. Robb said that he will get a written report from them.

The goal of the Tank Farm issue was not to offset or backfill the UUT, it was to help lower the amount from 8% to 6%.

Review the same thing that was already reviewed. The concern is will there be enough people hear to cover everything with everyone.

They want us to make sure that we have vetted out all other options.

Dennis is suggesting that what will really help is to have some members of the committee with credible voices, saying yes this is what we came up with this is what we are recommendation and we hope that you will give that recommendation some thought.

Robin said that they should all be there. She asked Angie to send reminders to the committee to be at the January 9th Council meeting. As many as possible will show up.

b.) Department Presentations – Public Works – Continued their presentation – Katie & Robert Staff let them know that 1.2 million is what the City anticipates getting if the Gas Tax goes through.

7:40 pm Meeting broke for recess

7:50 pm Meeting reconvened

c.) Department Presentations – Development Services – Robb

He introduced his Mid-Managers

Robb will have to continue his presentation next meeting and he will bring his staff back as well.

VI. Items Requested for Next Meeting

Robb will provide additional information for UUTax consideration and recommendation to Council, including information on the Reserves

The next Meeting will go forward on December 18th.

VII. Adjournment: 8:07 pm.

Submitted by:

Angela Perry



City of Rialto Memorandum

TO: Honorable Budget Advisory Committee

FROM: Robb Steel, Assistant City Administrator/Development Services Director 
Misty Cheng, Contract Finance Officer
Kyle Johnson, Finance Manager

COPY: Michael Story, City Administrator

DATE: December 15, 2017

SUBJECT: Reserve Policy Recommendations

Prior to consideration of the staff report recommending that the City Council schedule a special election to consider an extension of the Utility Tax, staff was asked to prepare a report and recommendation related to the use of General Fund Reserves. The City Council asked the Budget Advisory Committee to consider the question, and forward a recommendation to the City Council for its next regularly scheduled meeting on January 9, 2018.

The City's 10-year financial planning consultant provided the report and recommendations attached hereto as **Exhibit A**. This Memorandum supplements the consultant report with a summary of the founding principles for the City's reserve allocations, the current reserve fund status, and staff's recommendations.

The FY 18 Budget forecasted the reserve balance at June 30, 2018 as illustrated in the table below. Because of ongoing Airport land sales, the City's reserve balance continues to grow. The Budget forecasts that the City General Fund will have total reserves of \$78.4 million, with \$38 million set aside as operational reserves, \$34.1 million for capital outlay, and \$6.3 million as unencumbered. The City Council directed allocation of future Airport revenues toward specified capital projects until fully funded, with overages available for allocation to other priorities.

The report addresses two fundamental questions: (1) Is the current reserve standard (50% of the operating budget) appropriate (too high, too low, or just right), and (2) if surplus reserves exist, what expenditures should the City prioritize.

General Fund Reserve Balance

Fiscal Year Ending	<u>June 30, 2018</u>		
Begin Balance at July 1, 2017	\$	70,519,000	
Budget Year Net Increases/(Decreases)	\$	7,868,000	includes operating & non-operating revenues
Reserve Balance before Reservations	\$	78,387,000	
Reserve Requirement at 50% of Operating Budget	\$	(37,976,000)	
		=====	
Net Reserve after Policy Application	\$	40,411,000	Surplus Reserves
<u>Reservations against Reserve Balance</u>			
Advances to Other Funds	\$	(1,200,000)	due from water fund
Operational Reserve	\$	-	\$5M deleted by Council action in FY18
Streets & Parks	\$	(3,841,000)	FY 18 Construction
Fire Station 205	\$	(5,000,000)	under design
Airport Contingent Liability	\$	(3,554,000)	held in escrow until Airport Build Out
Joe Sampson Park	\$	(5,600,000)	Under Construction
Frisbie Park	\$	(7,875,000)	FY 19 Construction
Baca/Turch Park	\$	(7,007,000)	under design
		=====	
Reservations on Reserve Balance	\$	(34,077,000)	
Net Unencumbered Reserve at June 30, 2018	\$	6,334,000	net funding surplus to 50% set aside

Question #1: Is the Current Reserve Standard Appropriate?

In 2004, the City Council set the current reserve policy standard to have 50% of the operating budget set aside as reserves (see **Exhibit B**). The City established the reserves as a defense to the State’s ongoing takeaway of local government revenues, and to eliminate the inadvisable practice of borrowing from restricted funds to finance working capital requirements. The 50% standard is high (it was high then) compared to other communities, with the typical range from 15%-25%. So what now justifies the higher standard for Rialto?

The PFM memorandum cites the Government Finance Officers Association (GFOA) advisory that cities consider five factors for establishing reserves, foremost among them: “the **predictability of its revenues** and the **volatility of its expenditures** (i.e. higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile)”. This consideration alone warrants continuation of the 50% reserve standard for Rialto.

Because of the sunset provision of the current Utility Users Tax, the City should consider its revenue stream **highly unpredictable**. Approximately \$14.2 million or 18% of the City’s General Fund Operating Budget could disappear on July 1, 2018 unless voters renew the Utility Tax. Most cities do not bear this substantial risk to its operating budget and could therefore operate comfortably with a lower reserve requirement. If the City does not implement the Utility Tax

(or a comparable replacement), the City will undoubtedly use reserves to undertake an orderly rather than a chaotic reorganization to balance revenues and expenditures (the City will need to drastically reduce services).

Even if the voters approve a Utility Tax extension, it may be imprudent to reduce the 50% standard, unless some or all of the Utility Tax becomes permanent, because a short-term extension only temporarily moderates the risk. The choice between a tax that expires versus a tax that is permanent bears heavily upon the recommendation regarding a reserve standard, but the City must also consider voting propensities in its decision (i.e. the probability of a successful ballot measure).

The nation is in the midst of an unusually long recovery period after the Great Recession, and many economists expect a recession within the next few years. During the Great Recession, the City’s revenues dropped by 13% over a 3-year period or a total of \$7.3 million annually (see table below). The reserve provides a cushion in the event of an unexpected downturn in the economy that reduces revenues, allowing the City to maintain services until economic recovery.

Summary of General Fund Revenues

FY		Taxes	Other	Total	Taxes	Taxes	Total	Total
					\$ Change	% Change	\$ Change	% Change
FY 05	Actuals	33,277,010	15,101,502	48,378,512				
FY 06	Actuals	37,372,315	15,080,781	52,453,096	4,095,305	8.5%	4,074,584	8.4%
FY 07	Actuals	41,293,119	16,928,678	58,221,797	3,920,804	7.5%	5,768,701	11.0%
FY 08	Actuals	43,876,527	15,607,070	59,483,597	2,583,408	4.4%	1,261,800	2.2%
FY 09	Actuals	41,033,249	17,301,636	58,334,885	(2,843,278)	-4.8%	(1,148,712)	-1.9%
FY 10	Actuals	38,134,887	12,756,806	50,891,693	(2,898,362)	-5.0%	(7,443,192)	-12.8%
FY 11	Actuals	36,602,550	19,344,496	55,947,046	(1,532,337)	-3.0%	5,055,353	9.9%
FY 12	Actuals	39,484,798	24,962,001	64,446,799	2,882,248	5.2%	8,499,753	15.2%
FY 13	Actuals	41,980,564	26,970,559	68,951,123	2,495,766	3.9%	4,504,324	7.0%
FY 14	Actuals	42,584,336	23,864,515	66,448,851	603,772	0.9%	(2,502,272)	-3.6%
FY 15	Actuals	46,108,635	28,614,365	74,723,000	3,524,299	5.3%	8,274,149	12.5%
FY 16	Actuals	47,451,725	23,689,257	71,140,982	1,343,090	1.8%	(3,582,018)	-4.8%
FY 17	Budget	50,154,180	44,304,454	94,458,634	2,702,455	3.8%	23,317,652	32.8%
FY 18	Budget	55,278,200	34,695,630	89,973,830	5,124,020	5.4%	(4,484,804)	-4.7%
CAGR 05-18		3.98%	6.61%	4.89%				
CAGR 12-18		5.77%	5.64%	5.72%				

The City’s expenditures have entered a period of **extreme volatility** due to changes in employee compensation costs, particularly for pensions (PERS) and retiree medical care (OPEB). In December 2016, PERS notified the City that a reduction in the discount rate (the assumed rate of return on invested retirement funds) would cause an increase of 1%-5% for normal pension costs, and 30%-40% for unfunded liabilities. In addition to other actuarial adjustments made by PERS, the City’s annual General Fund pension costs will grow by approximately \$1.6 million per

year on average for each of the next 7 budget years. This will consume a significant percentage of new General Fund revenue growth (estimated at \$3-\$4 million per year, with no recession). The General Fund will have very little new discretionary revenue after payment of these fixed obligations to allocate toward new personnel, service/supply, capital outlay, debt service, or unfunded liabilities. Budgets going forward expect to be very tight.

The PFM memorandum notes other elements that the City should encompass within the reserve: disaster savings, facility/equipment/infrastructure replacement, and internal service fund capitalization. Including all of these elements, the 50% reserve requirement for Rialto is minimally acceptable.

Staff therefore recommends that the City Council retain the 50% operating reserve for working capital purposes and a reserve for revenue and expenditure uncertainty. If the City implements a Utility Tax (or something comparable) on July 1, 2018 then the City Council may reconsider its options.

Question #2: What expenditures should the City prioritize if surplus reserves are available?

The FY 18 Budget projected that the net unencumbered reserve at June 30, 2018 would be approximately \$1.3 million. The City Council directed the release of restrictions on an additional \$5 million of reserves, so the potential “surplus” reserves (i.e. above the 50% set-aside) are \$6.3 million. What are the recommended options for expending the “surplus” reserves? This recommendation also applies if the City Council reduces the 50% standard thereby freeing up funding for expenditure.

Staff has and will continue to recommend that the City Council retain all unassigned reserves until the City resolves the Utility Tax question and adopts the 10-Year Financial Plan. First, because the establishment of spending priorities may radically change if the City suffers an 18% operating revenue decrease six months from now. Second, because the 10-Year Financial Plan will recommend an optimal reserve target, and identify the advantages and disadvantages of various reserve investment options. The City should resolve the Utility Tax and Financial Plan questions over the next 6 months, enabling more deliberative investment decisions.

Nevertheless, if the Budget Advisory Committee (and ultimately the City Council) prefers to act immediately to allocate reserves or surplus reserves, staff recommends the following priorities:

1. For capitalization of rolling stock or equipment replacement fund and any internal service account deficiencies. The City Council should consider capitalizing an equipment replacement account to fund vehicle/equipment replacement on a systematic basis. The FY 18 Budget provided no funding for general fund supported capital outlay, as a budget balancing measure. This cannot continue indefinitely, as capital stocks require periodic replacement when maintenance costs exceed annualized replacement costs. The City should complete a detailed rolling stock replacement program and annually allocate funding from the operating budget. The use of reserves to capitalize the

account acknowledges that the City must replace some equipment soon and that the City has not adequately budgeted for that purpose in the recent past. The initial capitalization for the rolling stock/equipment replacement fund could range from \$1-\$2 million.

2. For capital outlay, including essential community infrastructure or economic development investments. The City Council has used reserves for a variety of street, park, facility, and economic development investments. The City Council should evaluate its priority unfunded capital projects and allocate funding. Projects that produce general fund revenue should generally receive priority (economic development projects) and projects that improve the quality of life for Rialto residents should generally receive second priority but balance is important. The City Council must also consider the operation and maintenance cost implications for the General Fund.
3. For unfunded liabilities related to pensions and retiree medical care. The City has an unfunded liability for its PERS retirement program of \$126.4 million at June 30, 2016. Unfunded liabilities for retiree medical care total \$24.8 million. Annual payments to retire these obligations are scheduled to increase in the coming years, and will consume a growing portion of the operating budget causing a squeeze on services. Forecasted pension payments alone will consume 25% or more of the general fund budget in FY 25, up from 10% today. Paying down this substantial debt reduces annual payments and provides budget relief downstream and enhanced security for retired or retiring employees. In effect, advance payments to PERS reduce the outstanding debt and, after re-amortization, the annual required contribution due from the City. The City would use reserves earning 1%-2%, to pay down a debt costing 7% and improve the funded ratio of the pension plan. This does not come without a cost, as the City's payments to PERS are irrevocable limiting financial flexibility. As an alternative to locking up with PERS, some cities have opted to create a Section 115 irrevocable trust that prefunds pension costs and invests more aggressively than with the reserves, thereby reducing future pension obligations without irrevocably committing the capital to PERS. Investment returns on Section 115 accounts generally range from 3%-4% today depending upon risk tolerance, so the price of flexibility is 3% to 4% (the difference between the PERS rate of 7% and the Section 115 investment returns).

The City deferred a portion of its OPEB payment (\$1.4 million) during the FY 18 Budget and the City Council should consider payment of this amount the first priority against unfunded liabilities. The OPEB Account is only 33% funded, compared to PERS at 67% funded. Both funded ratios are well below generally established standards (80 %+).

The City should consider reserves as one-time revenues allocated for one-time expenditures, with all of the above recommendations qualifying thereunder. The City should not use reserves for ongoing operating expenditures, particularly for personnel. Personnel expenditures should derive from the annual operating budget, competing for funding with annual service/supplies, capital outlay, and debt service obligations.



Memorandum

To: Robb Steel, Assistant City Manager
 Misty Cheng, Contract Financial Officer
 Kyle Johnson, Finance Manager

From: Russ Branson, Director

RE: City of Rialto General Fund Reserves

City Council members have asked for an evaluation of the City’s current General Fund reserve policy levels and whether these levels remain relevant to the City’s financial position. Additionally, Council is interested in determining how any excess policy reserves (regardless of policy level) should be deployed. This question is framed by the current question of whether or not to submit the utility users tax (UUT) to the voters of Rialto this spring.

The City of Rialto adopted a reserve policy in 2002 of not less than 50% of General Fund operating expense. While the original purpose of the reserve was for working capital and economic contingency, a primary purpose of this reserve has become to protect the City against the loss of the UUT, which provides 18% of the total General Fund revenue in FY18, or approximately \$14.2 million. This amount has increased approximately 3% per year.

Part-and-parcel to this discussion is the question about the City’s reserve level and distribution of excess reserves. At the end of the FY18, the City’s adopted budget calculates a **\$37.98 million reserve** to meet the 50% reserve policy requirement¹. As the City considers asking voters to extend the UUT, the Council is asking how the reserve fits into this request. Based on the analysis provided in this memo, the City’s 50% reserve policy remains an accurate reflection of the City’s needed reserve to adequately plan for potential loss of revenues or increases in costs.

Revenue/Expense Item	Reserve Needed	Notes
Overall General Fund Revenues	\$7.5 million for one to two-year coverage of revenue loss	Low estimate. GF revenue loss of \$7M to \$8M over three years in Great Recession
Loss of UUT	\$29.7 (\$14.6M in FY19 and \$15.1M in FY20) for two-year phase out of UUT (assumes 3%/year inflation)	UUT represents 18% of City’s general purpose revenue. Reduction of expenses would not be immediate or easily implemented
One-time costs: disasters and deferred maintenance	Unknown, but can use amount for UUT as reserve	Deferred maintenance study is needed for City facilities
Capital purchases/rolling stock	\$1 million	Varies between \$100,000 and \$1.2M per year
Drain from other funds	\$1 million	Primary volatility in internal service funds
Bond Ratings	\$0	No GF bonds at this time
Commitment and Assignments	Unknown	More Study is needed
Total	\$39.2 million	Excludes add’l Commitments

¹ Page 22 of the City’s FY17-18 adopted budget.



This memo discusses, generally, the components that should comprise a reserve and why the City's current policy matches the likely City need.

GFOA Recommendation

The Government Finance Officers Association (GFOA), is a membership organization operating throughout the United States and Canada with the mission to “promote excellence in state and local governmental financial management. One area the GFOA addresses in detail is that of general-purpose reserves. *“GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”* This equates to 16.7% of general fund operating expenses, or \$12.7 million for Rialto—at a minimum, assuming no unusual circumstances.

GFOA also provides recommended factors to consider in setting reserve levels at higher, or lower levels. These factors are shown below, and then each discussed within the context of Rialto's budget situation:

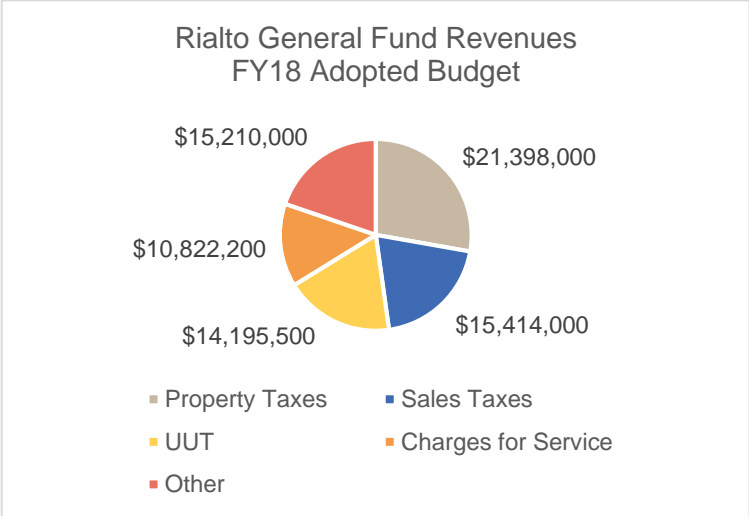
1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Predictability of Revenues and Volatility of Expenditures

A key element of a City's reserve is the likelihood of unexpected or uncontrolled revenues or expenses. As described below, the City has significant risks in this area.

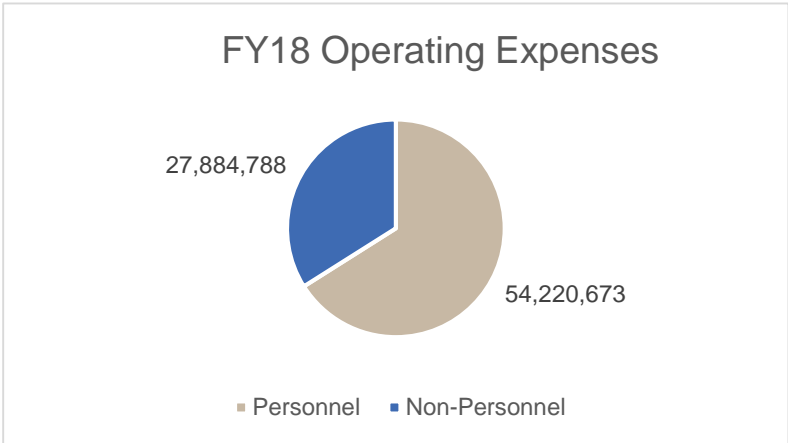


Revenues. Over the last several years, Rialto’s General Fund revenues have been stable and increasing. As shown in the chart to the right, revenues are varied, with revenue concentrated in property tax, sales tax, and the UUT. Virtually all of the City’s revenues are susceptible to economic changes, and this is one of the main reasons to have an economic reserve. An economic recession is likely to negatively impact City revenues, and reserves provide a cushion to continue providing services as the City grapples with the best way to reduce the budget. If a recession lasting several years resulted in reductions of between 5%-10% a year in revenues, the City would have a need for \$7.5 - \$15 million to fill the budget gap.



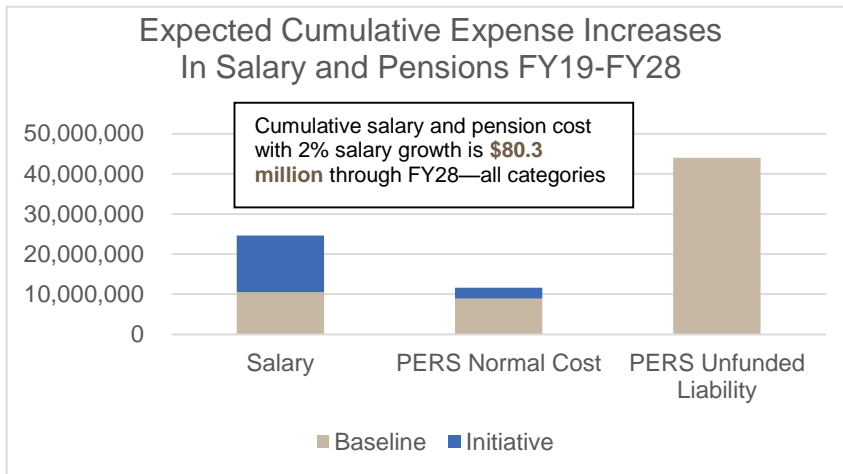
The sunset clause in the **City’s UUT presents a larger issue** as it relates to volatility and uncertainty of revenues. Every five years, the City is in danger of losing its UUT. This revenue source is key to the City’s operations, the sudden loss of the UUT would have major consequences for the City’s budget. If the UUT is not continued, the loss of revenue from this source (with expected escalation) would exceed **\$29.7 million** over the first two years and **\$160 million** over 10 years. This alone justifies the 50% operating reserve, as it could take the City two-three years to adjust program levels to match a lower-revenue budget.

Expenses. On the expense side, the City’s General Fund budget is heavily weighted toward personnel costs. The “other” operating expenses cover the supplies, services, and contracts needed to keep the City running on a day-to-day basis. For the most part, the City is able to control these costs through approval of funded positions and labor contracts.



Labor Costs. Future costs can be controlled by Council to some extent through labor agreements.

However, even seemingly modest increases in wages can have a significant, long-term impact on City expenses. For example, the budget model developed by PFM for the City projects a Baseline increase of 0.5% per year for miscellaneous employees and 1.0% per year for safety employees. Over the next 10 years, this modest increase will cost the City \$10.5 million in cumulative additional expenses related to the salary increases. If this is increased to a still-modest 2% per year for all groups (still lower than expected inflation), an additional \$14.2 million in cumulative salary costs will be added, requiring a growth in revenues of nearly \$25 million to fund.



Pension Costs. The City has less control over its pension costs. Over the last several years, CalPERS has changed actuarial assumptions on expectations for retirement age, final salary, and mortality significantly increasing the employer cost of pensions. Recently, CalPERS lowered its expected discount rate for future returns, further increasing projected employer pension costs. The result of this is a cumulative \$53 million increase over the

next 10 years. Changes in salary will have a minimal impact on future pension costs (\$2.7 million over 10 years for increases to normal cost), as most of the increase is in unfunded actuarial liabilities.

It is not certain the current reduction in CalPERS’ discount rate will be sufficient. If the discount rate is reduced further, the City’s costs for unfunded liabilities will spike and require additional City funding.

Other Costs. Due to the City’s ongoing recovery from the Great Recession, there are several costs that are not included in the budget that will impact the City’s need for capital in the years to come. These are discussed in “Commitments and Assignments” below.

Conclusion: *Based on the impact of future recessions and the potential loss of the UUT revenue every five years, the City’s reserve for loss of revenues should be in the \$37.2 million range (two years of UUT revenue and two years of a 5% impact from a recession) in order to have an orderly response to major changes in revenues and/or expenses. General Fund expenses are more predictable, but are predicted to rise significantly over the next 10 years, even with modest salary increases. As General Fund expenses increase, there will be a corresponding increase in the operating reserve requirement.*

Perceived Exposure to Significant One-Time Outlays

One-time expenses can be required by natural disasters and their aftermath or by failure of major systems in the City’s aging facilities and infrastructure. Having reserves to address these issues without major impacts to ongoing City services is crucial. While the City has limited information on these areas at this time, each of these is discussed briefly below.

Disasters. The City has exposure to natural disasters, primarily due to earthquakes, high-wind events, and fires. Beyond repair to City infrastructure and buildings, there can also be the cost of shelters for displaced residents in the event of a natural disaster. Additionally, local disasters also lead to unexpected overtime costs for public safety and public works employees. The set-aside needed for a potential local disaster has not been evaluated.

Aging Facilities and Infrastructure. The City also has aging buildings, parks, and roads. Major system failure of HVAC systems, roofing, playground equipment, and high-cost City vehicles (e.g., fire engines and trucks) can all place a fiscal strain on the City’s budget. No estimate of deferred maintenance is available for City infrastructure or equipment to gauge the current risk associated with these risks. Emergency responses to aging infrastructure can be funded through the reserve; however, a more orderly way is to include funding for known future costs in the City’s annual commitments and assignments.



Conclusion: *The City should have some amount of money set aside for natural disasters and the impact of deferred maintenance on City facilities and infrastructure. Assuming the UUT stays in place, the current reserve should be sufficient for any near-term cost that should arise; however, the City should evaluate its deferred maintenance needs to quantify current cost liabilities.*

Potential Drain Upon General Fund Resources from Other Funds

The City has done a good job of insulating the General Fund from other funds in the City. The Community Services department is currently operated as an enterprise fund, but is mainly funded through General Fund transfers. Internal service fund transfers have been inconsistent, and may impact the General Fund. Transfers to the internal services funds since 2010 have ranged from \$162,000 to \$2.3 million, with an average of \$1 million per year.

An additional area related to this category is an ongoing need to fund the City's capital needs and rolling stock. The City has invested a great deal in capital equipment, its vehicle fleet, and IT infrastructure. Annual expenditures for replacement and upgrades of these investments has varied over the last several years from approximately \$100,000 to \$1.2 million. In order to have sufficient revenue to upgrade capital investment as needed, the reserve should set-aside \$1 million.

Conclusion. *Impacts from General Fund resources flowing to other funds should be covered in the City's reserve for revenue volatility and should not create an additional reserve requirement. However, if the UUT revenue issue is ever resolved, a reserve of \$2 million (\$1 million for other funds, and \$1 million for capital and rolling stock) should be added for this potential cost to the General Fund.*

Potential Impact on Bond Ratings

The City does not have general fund debt. Although unlikely, if the City adds general fund debt at some point in the future, the reserve requirement should be re-visited.

Conclusion. *Should the City issue General Fund debt, a reserve amount should be added to the General Fund to help insulate services from revenue volatility while still maintaining debt service payments.*

Commitments and assignments

The City's total fund balance, after setting aside for the policy reserve of \$37.98 million is \$40.41 million. Of this amount, \$39.1 million is reserved by the City for other uses. The City's General Fund reserve balances, as included in the City's adopted FY18 budget is shown on page 22 of the City's FY17-18 budget.

In addition to the reservations listed in the budget, there are several areas where the City is not setting funds aside for future costs. These include:

- Deferred and ongoing maintenance of City buildings, parks, roads, and other infrastructure
- Unfunded pension and retiree health care liabilities—\$126.4 million for pensions and over \$25 million for retiree health. While the pension amount is being funded through increased employer costs, the City could reduce future cost increases by accelerating the payment amounts. The City can also reduce future pay-go payments for retiree health by fully funding the OPEB annual required contribution (ARC).
- Investments in City buildings (e.g., new City Hall, community centers, parks, etc.) are needed to keep the City facilities up-to-date and current with community desires.



The analysis to determine future commitments and set-asides is not currently available, and will need to be evaluated based on community desires and ability to pay.

Use of Excess Revenues

A secondary question related to policy reserves is what to do with excess reserve revenues, whether as a result of fiscal performance or a change in reserve policy that frees up these one-time funds. The primary recommendation is that one-time moneys should be used for one-time expenditures. While the distribution of funds for one-time uses should remain a Council decision at the time of distribution, the City has several areas with significant and ongoing funding needs, as shown in the chart below.



Use of One-Time Funds from Excess or Released Reserve Funding

One-time expenditures	Identified Funding
Capital and rolling stock funding	Varies annually—key to City’s ongoing operations
Unfunded pension liability	As of June 30, 2016: \$87.2M for Safety and \$39.2M for Miscellaneous
Retiree Health Unfunded Liabilities (“OPEB”)	\$24.8M as of June 30, 2016
Road Repair and improvements	Not determined

Funding the City’s capital and liability needs will have the effect of reducing long-term general fund expenditures and provide for improved service provision by City staff.

One-time moneys are not recommended to support increases in ongoing costs, such as salary increase or improvements to City benefits. While one-time funding can defray the up-front impact of these costs, the long-term impact on the City’s fiscal condition can be very negative. With recent increases in ongoing pension expense, and potential additional pension increases if the market returns for CalPERS remains low, the City should proceed carefully with increasing ongoing expenditures.

Conclusion

Based on the factors discussed above, PFM recommends the following:



Recommendation #1—Policy Level Reserves: The City Council should retain its policy of a 50% General Fund budget reserve. This reserve will allow the City time to adjust to a loss of revenue in the event that a sun-setting UUT is not re-authorized or in the event of a recession impacting General Fund revenues. This reserve also allows the City to address capital needs, funding for non-general fund programs, and the ability to respond to one-time events related to natural disasters or major capital or infrastructure failures.

Recommendation #2—Priority of Distributing Amounts Exceeding Policy Reserve Levels: A secondary question related to policy reserves is what to do with excess reserve revenues, whether as a result of fiscal performance or a change in reserve policy that frees up these one-time funds. It is recommended that Council limit the use of one-time funding from reserves for one-time, or limited-term, costs. Specifically, Council should consider investments in City capital needs and paying down long-term liabilities for pensions and retiree health.

CITY OF RIALTO

AGENDA REPORT

For City Council Meeting of November 2, 2004

TO:	Honorable Mayor and Council Members
APPROVAL:	Henry T. Garcia; City Administrator 
FROM:	June Overholt, Chief Financial Officer 
SUBJECT:	Update the Reserve Policy for the General Fund
DATE:	October 18, 2004

BACKGROUND:

The City of Rialto Council and staff have made significant strides in dealing with managing the resources available to the City. This initially included cutbacks in personnel, improving internal controls, establishing the Rialto Utility Authority (RUA), and eliminating deficit funds. These actions, coupled with improved revenues and budget savings and most recently implementing the Utility Users Tax, have resulted in an improvement in the financial condition of the General Fund.

However, even with these positive circumstances, the condition of the State budget continues to cause uncertainty for the City. In the past, the City of Rialto has experienced financial setbacks resulting from the State of California budget crisis. The first of these occurred in the early 1990's with the Education Augmentation Revenue Fund (ERAF). ERAF took property taxes from the cities to fund State obligations. It is estimated that since ERAF's inception, the City of Rialto has lost over \$15 million. Add this to other tax revenues taken by the State over the years and the total exceeds \$23 million. The latest State grab requires a "contribution" of \$1.5 million over the next two years. The League of California Cities and the Governor have agreed to this contribution in exchange for constitutional protection for local revenues. This constitutional protection (Prop 1A) will be voted on this November 2, 2004.

As a result of improved financial conditions in fiscal years 2002 and 2003, Council was able to set aside \$6 million in contingency reserves to deal with budget uncertainties. The budgets for fiscal year 2005 and 2006 currently rely on this reserve to fund the "contribution" to the State of \$1.5 million. Having reserves to stabilize these impacts is essential to providing a reliable level of service to the community.

In addition, Council established a Working Capital reserve of \$12.5 million in May 2000. This reserve was created to stabilize the City's financial condition, provide interest earnings for the General Fund and to provide for cash flow needs and emergency appropriations. This fund has accomplished its goal. (see exhibit C). As stated in the

resolution “the principal of the fund is to be preserved until the City has reduced inter-fund borrowings that are presently in existence to a level recommended by the City’s independent auditor”. This has been accomplished. The Working Capital was utilized to eliminate several deficit funds. The Working Capital Reserve balance is \$10 million as of June 30, 2004 (an increase of \$182,000 since the budget was presented).

ANALYSIS/DISCUSSION:

With this action, staff is recommending that Council adopt a comprehensive General Fund Reserve policy. The proposed policy addresses the general purpose of having the reserve, the reserve target level, uses and restrictions, and the procedures to be followed.

Establishing and maintaining a reserve prepares the City for addressing difficult circumstances that arise in the future. The recommended reserve policy provides Council flexibility in addressing natural disasters, man made disasters (i.e. September 11), economic downturns, strategic planning, community needs, capital needs or equipment reserves. In addition, having a reserve policy provides Council and staff with a road map that can accomplish long term financial health for the citizens and future leaders of the community.

Different cities have policies of maintaining reserves that range anywhere from 5% to 100% of the annual General Fund expenditure budget. The attached survey (Exhibit D), obtained through the California Society of Municipal Finance Officers (CSMFO) member group, highlights the wide range of reserves. Other surveys and newspaper articles have found that Cities that have a reserve policy tend to achieve the goal of having reserves and are considered to be more financially stable.

The proposed General Fund Reserve policy recommends a target reserve of 50% of General Fund expenditure appropriations. For the City of Rialto, this represents approximately \$20 million. The City is well under way to achieving this goal.

Current estimated designations/reserves:

Budget Contingency	6,000,000
Working Capital	10,000,000
Approximate Addition to Working Capital reserves at year end	3,000,000
TOTAL designated Reserves as of June 30, 2004	19,000,000
Programmed uses of reserves in FY05 & FY06 for “State Contribution”	(1,500,000)

Within the Reserve Policy, there are several uses for the reserves and obligations of the General Fund defined. One of these obligations is a liability of the City with the Worker’s Compensation fund. This liability is commonly referred to as IBNR (incurred but not reported). The City had an actuarial prepared that reported a need to establish an IBNR liability of at least \$2.2 million. With this Council report, staff is recommending utilizing a portion of the undesignated fund balance to fund this liability.

The estimated addition of \$ 3 million to the Working Capital reserves at year ending June 30, 2004 is based on the available undesignated fund balance after funding the IBNR liability in the worker's compensation fund. It is possible that an additional amount will be added to the reserves once the audit entries are finalized and all obligations of the General Fund have been identified.

Per the policy, the Working Capital Reserve Fund typically funds any year end auditing entries providing temporary loans to other funds, grant funds and the Airport fund for deficit cash balance accounts. The need for these entries is technical in nature and is a result of pending grant reimbursements and the existing Airport cash deficit.

In addition to the temporary loans entries, this year an additional transfer to the Recreation Fund is required. At the time of the June Interim Council report, the potential need for this transfer was reported to be no more than \$50,000. The need for the additional transfer arose from additional personnel costs that were not anticipated when the budget was adjusted at midyear. With the budget recommendation, staff is recommending transferring an additional \$50,000 to the Recreation Fund.

Staff is also working on a reserve policy for the remaining City funds that will address similar concerns as the General Fund, such as, addressing natural disasters, man made disasters (i.e. September 11), economic downturns and equipment reserves, among others. The reserve policy will address the target reserve amount and the uses of the reserves.


As the long term strategic financial plan is prepared and then presented to Council, changes to the budgeting process and reserve policy may need to be addressed. Included in this plan will be recommendations to Council to address undesignated fund balances once reserve goals are met and future accounting obligations are addressed.

ENVIRONMENTAL IMPACT:

None

LEGAL REVIEW:

The staff report and Resolutions have been reviewed and approved by the City Attorney.


City Attorney

FINANCIAL IMPACT:

Funds are available in the General Fund for Fiscal Year 2004 to increase the General Fund Working Capital Reserves by approximately \$3 million, to fund the IBNR liability of \$2.2 million in the Worker's Compensation Fund and to transfer \$50,000 to the Recreation Fund.


Chief Financial Officer

RECOMMENDATION:

- Council approve the resolution adopting the General Fund Reserve policy.
- Council authorize the budget resolution approving accounting entries to move available undesignated fund balance to the Working Capital Reserves and establish the necessary funding for the IBNR in the Worker's Compensation fund and to transfer \$50,000 to the Recreation Fund.

Attachments.

Resolution adopting Reserve Policy -Exhibit A

Budget resolution with Exhibit B

Exhibit C – Resolution regarding the \$12.5 million

Exhibit D – survey of reserve levels for other cities

Report prepared by June Overholt, Chief Financial Officer

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

RESOLUTION NO. 5169

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
RIALTO, CALIFORNIA, APPROVING THE RESERVE POLICY
FOR THE GENERAL FUND**

WHEREAS, the fiscal year ending 2004 resulted in savings to the General Fund of the City of Rialto; and

WHEREAS, the City is concerned with the potential impact of decisions made by the State of California legislature related to the State budget crisis that may adversely impact the City of Rialto; and

WHEREAS, the City Council has established in prior years a Contingency Reserve within the General Fund (010); and

WHEREAS, the City Council established the Working Capital Fund (030) as a reserve; and

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF RIALTO DOES
HEREBY FIND, DETERMINE, AND RESOLVE AS FOLLOWS:**

Section 1: That the City Council of the City of Rialto adopts the General Fund Reserve Policy as defined in Exhibit A.

Section 2: This resolution and policy may be amended from time to time by the City Council at its discretion and the use of the reserve fund may be prescribed by Council action to address budget needs from time to time at the Council's sole discretion.

////

PASSED APPROVED AND ADOPTED this 2nd day of November, 2004.



GRACE VARGAS, Mayor

1 **ATTEST:**

2

3

4


BARBARA MCGEE, City Clerk

5

6

7 **APPROVED AS TO FORM:**

8

9

10


ROBERT A. OWEN, City Attorney

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

1 STATE OF CALIFORNIA)
2 COUNTY OF SAN BERNARDINO) ss
3 CITY OF RIALTO)

4 I, Barbara McGee, City Clerk of the City of Rialto, do hereby certify that the foregoing
5 Resolution No 5169 was duly passed and adopted at a regular meeting of the City Council of the City of
6 Rialto held on the 2nd day of November, 2004.

7 Upon motion of Council Member Hanson, seconded by Council Member Sampson,
8 the foregoing Resolution No. 5169 was duly passed and adopted.

9 Vote on the motion:
10 AYES: Mayor Vargas, Council Members: Hanson, Sampson & Wilson
11 NOES: None
12 ABSENT: Council Member Robertson

13
14 IN WITNESS WHEREOF, I have hereunto set my hand and the Official Seal of the City of
15 Rialto this 9th day of November, 2004.

16
17 
18 BARBARA MCGEE, CITY CLERK

19
20
21
22
23
24
25
26
27
28

CITY OF RIALTO GENERAL FUND – RESERVE POLICY

For the purposes of this policy, Council will be designating funds as a reserve. This reserve does not have external legal restrictions as reported in the annual audited financial statements. Within the audited reports, these funds are typically identified as designations. Reserves can only be utilized as defined by this policy or by Council action.

Purpose

The City shall maintain unappropriated funds or working capital balances in the General Fund. This policy has been developed to establish the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

- Economic uncertainties and other financial hardships or downturns in the local, state or national economy.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Legal requirements.

Policy

The City shall target a minimum reserve level of 50% of the operating budget. For the purpose of this policy statement, the budget shall include appropriations for operating expenditures plus transfers to other funds for operations. This reserve goal is considered a part of the strategic financial plan for the City.

- Uses of the reserves – Broadly described in the purpose with specific examples presented below.
- Restrictions/limitations on use of reserve funds – No on-going operational expenditures (i.e. salary increases, services and supplies).

In addition to the target reserve levels, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements, reserves for encumbrances, and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.

Procedure

Phase I – The Finance Department shall perform a reserve analysis annually at the time of year end closing and audit preparation.

- Based on the findings, Finance and the Administration will review any deferred maintenance projects and the specific obligations identified in Appendix A and present these to Council for approval, if action is needed.
- Finance will prepare an adjustment at year end to classify any remaining available fund balance as working capital reserves. This adjustment will be communicated by memo to the Administration and Council.
- Any use of the Reserves beyond what is outlined in this policy, will require Council action.

Phase II -

Once Council has reviewed and approved a long term strategic financial plan for the City, achieving the reserve balance goals and the maintenance of the reserves will require a revision to the procedures section in this policy.

Uses of the reserves

Specific examples of uses of the reserve include:

- Interest income – The Working Capital Reserves and Contingency reserves will provide interest earnings to the General Fund
- Cash flow – stabilize impact of the State's Triple Flip, ERAF/VLF swap and other programs that postpone payment of City revenues by the State
- Economic Uncertainties – The State of California has consistently tapped into local revenues to fund the State budget deficit causing financial burdens for the City.
- Budget stabilization – i.e. when Sales tax refunds are needed for overpayments to the City of Rialto
- Capital needs – deferred maintenance and equipment purchases
- Upcoming issues
 - Other Post Employment Benefits (OPEB) actuarial liability (pending actuarial FY05 or FY06)
 - Incurred but not Reported (IBNR) – general liability actuarial liability/ reserve requirements (pending actuarial in FY05)
 - Compensated Absences liability
 - PERS tax supplement for funds currently benefiting from the remaining PERS Tax fund balance

Other requirements of the General Fund balance:

1. The General Fund is ultimately responsible for the unfunded obligations of all the City funds. There are several funds that potentially place a burden on the General Fund.

Grant funds: If the City has expended funds on a grant project that later becomes unfunded, these expenditures are the responsibility of the General Fund. Any grant funds that have not been fully reimbursed by year end will receive a temporary loan from the Working Capital reserve to fund the cash flow needs.

Airport: In Rialto, the Airport engaged in costly expansion efforts that were not funded by the FAA as originally expected. As a result, the fund has maintained a deficit retained earnings for many years. This fund also carries a deficit cash balance that is functionally covered by the General Fund. Until such time as the operational and historical financial deficit

condition of the Airport is reversed, the General Fund will need to assume its' reserves will absorb part or all of the deficit.

Landscape and Lighting Maintenance Districts: The existing assessments collected through property taxes are not sufficient to fully fund the operational costs of the maintenance districts. As a result, the fund balance has been depleted each year and runs the risk of a deficit. For cash flow purposes, these funds should maintain a six month operating reserve. In the absence of this reserve, the General Fund functionally provides for the cash flow needs and is ultimately responsible for any operational deficits.

RESOLUTION NO. 4633

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RIALTO, STATE OF CALIFORNIA, ESTABLISHING THE RIALTO WORKING CAPITAL FUND AND SETTING FORTH THE INTENDED CRITERIA FOR ITS UTILIZATION.

WHEREAS, the County of San Bernardino ("County") and the City of Rialto ("City") did enter that certain Development Agreement dated as of June 16, 1998 ("Development Agreement"), for the expansion of the Mid-Valley Sanitary Landfill; and

WHEREAS, upon the fulfillment of certain delineated conditions, the County is required to pay a second installment of an initial payment (in the amount of \$12.5 Million) to the City under the terms of the Development Agreement; and

WHEREAS, the County anticipates that the outstanding conditions under the Development Agreement will be shortly met and the City will therefore shortly be receiving the \$12.5 Million payment under the Development Agreement.

NOW, THEREFORE, the City Council of the City of Rialto does hereby find, determine, and resolve as follows:

Section 1. The above recitals are determined to be true and correct and incorporated herein by this reference.

Section 2. There is hereby established the Rialto Working Capital Fund, to be maintained and accounted for as Fund Number 030 in the City's general ledger and chart of accounts. Upon the City's receipt of the \$12.5 Million payment from the County in accordance with the terms of the above-referenced Development Agreement, such monies shall be deposited into the Rialto Working Capital Fund.

1 **Section 3.** Monies contained in the Rialto Working Capital Fund may be invested, expended
2 and otherwise utilized for the following purposes:

- 3
- 4 • Inter-fund loans from the Working Capital Fund to other funds as may be approved by the City
5 Council and subject to resolution documenting the amount of the loan, the term of repayment,
6 and the interest to be paid on the fund's loan to the Working Capital Fund.
 - 7 • Pledging against borrowing for working capital for various funds as may be approved by the City
8 Council. This use anticipates the City may issue revenue notes, COPs or other security
9 instruments which would be secured partially or entirely by the principal in the Working Capital
10 Fund.
 - 11 • The fund is intended as an interest-earning vehicle for the General Fund. All interest earned in
12 the Fund shall be transferred to the General Fund semi-annually.
 - 13 • Interest payments on funds borrowed or secured by the principal of the Working Capital Fund
14 shall be made by the operating fund to which the funds are loaned or pledged.
 - 15 • The principal of the fund is to be preserved until the City has reduced inter-fund borrowings that
16 are presently in existence to a level recommended by the City's independent auditor.
 - 17 • A portion of the fund may be used as a debt service reserve fund combined with borrowing for
18 general City purposes.
 - 19 • The fund may be used for emergency appropriations as established by the City Council for any
20 emergency that is so declared as a result of catastrophic events within the City of Rialto.

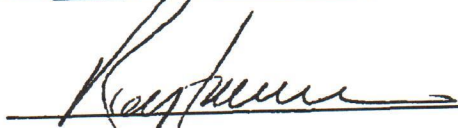
21 **Section 4.** This resolution, and the authorized investments, expenditures, and other uses of
22 the funds contained in the Rialto Working Capital Fund may be amended from time to time by the City
23 Council in its discretion.

24 **Section 5.** If any word, phrase, sentence, or other provision of this resolution is ever
25 determined to be invalid or unenforceable by a court of competent jurisdiction, then the remaining
26 words, phrases, sentences, and provisions are hereby declared to be severable from the invalid and/or
27 unenforceable portions of this resolution and shall remain in full force and effect notwithstanding such
28 invalid or unenforceable provisions of this resolution.

26 \\
27 \\
28 \\

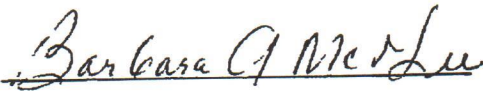
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

PASSED, APPROVED, AND ADOPTED this 2nd day of May, 2000.



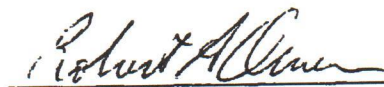
RAY FARMER, MAYOR

ATTEST:



BARBARA McGEE, CITY CLERK

APPROVED AS TO FORM:



ROBERT A. OWEN, CITY ATTORNEY

1 STATE OF CALIFORNIA)
2 CITY OF RIALTO)ss
3 COUNTY OF SAN BERNARDINO)

4 I, BARBARA MCGEE, CITY CLERK FOR THE CITY OF RIALTO, DO HEREBY CERTIFY
5 THAT the foregoing resolution was duly passed, approved and adopted at a regular
6 meeting of the City Council of the City of Rialto held on the 2nd day of May, 2000.
7

8 Upon Motion from City Council Member Zupanic-Skaggs, seconded by City Council Member
9 Sampson, the foregoing resolution was duly passed and adopted.
10

11 VOTE ON THE MOTION:

12 AYES: Mayor Farmer, Council Members: Zupanic-Skaggs, Sampson, Vargas & Scott

13 NOES: None

14 ABSENT: None

15 IN WITNESS WHEREOF, I have hereunto set my hand and the Official Seal of the City of
16 Rialto this ____ day of _____, 2000.
17

18 
19 BARBARA MCGEE, CITY CLERK
20

**RESPONSE TO SURVEY
PERCENTAGE HELD IN RESERVES
MAY 2002**

Exhibit D

City	Percentage	Based on
Arcadia	20%	General Fund operating budget
Arroyo Grande	15%	General Fund
Brisbane	50%	General Fund reserves
Camarillo	50%	General Fund operating budget
Chico	7.50%	General Fund expenditures
Danville	20%	General Fund expenditures
Del Mar	10%	General Fund
El Cajon	20%	General Fund
El Segundo	?	Grows by CPI
Encinitas	18%	Will increase to 20% ASAP
Fairfield	20%	General Fund expenditures
Fullerton	10%	appropriations plus \$1.0 million
Grover Beach	15%	General Fund, 10% GF Emergency Reserve
Hermosa Beach	15%	General Fund
Irvine	6%	For economic uncertainties
Laguna Beach	10%	Of appropriations
Lake Forest	40%	Of revenues
Menlo Park	20%	Of expenditure contingency, plus \$500,000 GF
Millbrae	10%	General Fund
Moreno Valley	15%	General Fund operating budget
Morro Bay	27.50%	General Fund operating budget
Murrieta	35%	General Fund operating expenditures
New Port Beach	10%	General Fund expenditures
Palmdale	5-10%	General Fund expenditures
Palm Springs	15%	General Fund operating budget
Pasadena	8%	Of appropriations
Pleasanton	10%	Of revenues
Porterville		None at this time
Rancho Palos Verdes	50%	Of revenues
Roseville	10%	General Fund
San Clemente	8%	General Fund & Enterprise Funds
San Luis Obispo	20%	Operating expenditures
Santa Barbara	25%	Adopted budget
Santa Clara	25%	General Fund
Santa Clarita	10%	Of revenues
Santa Paula	10%	Of revenues
Santee	25%	Annual budgeted expenditures
Sebastopol	6%	General Fund, goal is 15%
Tustin	15%	Of appropriations

Solvang has about 70% of General Fund expenditures in undesignated reserves.