



CITY OF POMONA COUNCIL REPORT

January 6, 2020

To: Honorable Mayor and Members of the City Council

From: Mark Gluba, Acting City Manager

Submitted By: Andrew Mowbray, Finance Director/City Treasurer

SUBJECT: FISCAL YEAR 2020-21 BUDGET KICKOFF AND A REVIEW OF THE CITY OF POMONA FISCAL SUSTAINABILITY POLICY AND FUND BALANCE POLICY

RECOMMENDATION:

It is recommended that the City Council take the following actions:

- 1) Approve the attached Fiscal Year (FY) 2020-21 Budget Guiding Principles and review the FY 2020-21 Budget Preparation Calendar and Budget Process
- 2) Review the City of Pomona Fiscal Sustainability Policy
- 3) Review the City of Pomona Fund Balance Policy

EXECUTIVE SUMMARY:

The City's Fiscal Sustainability Policy (Policy), adopted in 2011 requires the City Manager to submit guiding principles for the upcoming budget year. The FY 2020-21 Budget Guiding Principles is attached (Attachment 1) for Council approval. The FY 2020-21 Budget Calendar and Budget Process are also presented for Council approval.

In addition, staff has begun a critical review of Pomona's Fiscal Sustainability Policy (Attachment 2) and Fund Balance Policy (Attachment 3). These policies are eight years old. The scheduled Fund Balance restoration goal has been met and will likely also be met at end of FY 2019-20. In recognition of the change in calculation of retirement costs and other economic factors, staff will prepare Policy amendments for future Council review and consideration.

FISCAL IMPACT: The review of the Fiscal Sustainability Policy and Fund Balance Policy will have no immediate impact on the City's General Fund, however future updates or changes to any

financial impacts covered within may impact the General Fund as well as other City operating funds.

PUBLIC NOTICING REQUIREMENTS: None Required

PREVIOUS RELATED ACTION: On May 2, 2011, the City Council adopted Resolution Number 2011-49 approving the Fiscal Sustainability Policy which contains the following language, “annually, the City Manager shall submit to the City Council for consideration, a list of Budget Guiding Principles to be used in the development of the coming year’s budget.” In addition the City of Pomona Fund Balance Policy was adopted via Resolution 2011-63A on June 20, 2011.

DISCUSSION:

BUDGET CALENDAR

What	Fiscal Year 2020 -21
Budget Kickoff for Staff – Distribution of Budget Guide and Forms to Departments	December 10, 2019
City Council Meeting – Approval of Fiscal Year 2020-21 Guiding Principles	January 6, 2020
City Council Meeting – General Fund Mid-Year Budget Review	March 2, 2020
Distribution of Proposed Documents	May 4, 2020
Budget Study Session – Review of the Proposed Budget	May 11, 2020
City Council Meeting – Public Hearing for Budget Adoption	June 1, 2020

Staff recommends following the same process used in prior years with a budget study session held in May (the second Monday, May 11th) and one public hearing (or more if needed) held in June. Departments have been advised to hold the line and to maintain their current year budget as a baseline and to limit requests for new programs or staffing if there is an identified ongoing funding source.

FY 2020-21 BUDGET GUIDING PRINCIPLES

In accordance with the City Council adopted Fiscal Sustainability Policy, the 2020-21 Budget Guiding Principles is hereby submitted for consideration. While the FY 2020-21 Principles closely follow those of FY 2019-20, items 5 and 12 of Section IX (Capital Improvement

Program and Asset Replacement) of the Fiscal Sustainability Policy are not recommended for suspension and this topic will be discussed herein.

FISCAL SUSTAINABILITY POLICY

On May 2, 2011, the City Council adopted resolution number 2011-49 approving the City's Fiscal Sustainability Policy (Attachment 2). This Policy established guidelines for the City's overall fiscal planning and management and is intended to foster and support continued financial strength and stability of the City. The Policy is quite comprehensive and covers areas of Budget, Economic Development, Risk Management, Accounting-Auditing-Financial Reporting, Cash Management and Investments, and Debt Management. The Policy also sets forth guidelines for expanding the annual budget within the Budget' section of the Policy as follows:

Section I, Item 6 — states that one-time revenue sources or unexpected revenue should be placed in reserves and not used for operating expenses. Once the reserve balance exceeds the set Policy amount, one-time revenue may be used for one-time expenses. If the one-time expense results in ongoing operating costs, funding for the ongoing costs must be determined before the one-time funds are allocated.

Section II — states that any annual surplus will be placed in fund balance until amounts designated within the Fund Balance Policy and those set herein (Capital Improvement Project, Equipment Replacement) have been reached.

Section IX, Item 5 — states that the City's objective will be to dedicate to the Capital Improvement Program, for citywide improvements without an alternative funding source, at least 0.25% of the annual General Fund revenues allocated to the City's operating budget beginning with fiscal year 2013-14. This percentage will increase by 0.10% each year until reaching 1.0%.

In 2012 when the Policy went into effect, and due to continued fiscal challenges, this provision was suspended for many fiscal years in the annual guiding principles; however the General fund has transferred funds to the Capital Improvement Program since Fiscal Year 2013-14. The table below shows this historical contribution through FY 2018-19, which combined far, exceeds a minimum contribution of .25% of the General fund revenues, and has increased well over 1.0% with the \$2.7M contributed through June 30, 2019. Not included in Table 1 is the \$1.4M appropriated from FY 2019-20 General Fund reserves for the Police – Main Facility Roof Replacement CIP Project.

Table 1 – General Fund Balance

CIP Project Title	Proj #	Amount	Fiscal Year
SW Pomona Landfill - City	73359	\$44,350	FY 2013-2014
FY 2013-14 Total		\$44,350	FY 2013-2014
Kennedy Park - Field Improv	71027	\$165,000	FY 2015-2016
Esperanza y Alegria Park	71029	\$215,000	FY 2015-2016
Civic Center-Sec Improvements	71043	\$32,075	FY 2015-2016
Police - Facility Roof Rplmt	73369	\$89,045	FY 2015-2016
FY 2015-16 Total		\$501,120	FY 2015-2016
Civic Center-Sec Improvements	71043	\$4,684	FY 2016-2017
ADA Curb Ramp & Sdwalks Comp	81055	\$872,000	FY 2016-2017
FY 2016-17 Total		\$876,684	FY 2016-2017
Civic Center-Sec Improvements	71043	\$212	FY 2017-2018
Year-Round Emergency Shelter	71044	\$58,000	FY 2017-2018
Financial Software Project	71048	\$50,000	FY 2017-2018
FY 2017-18 Total		\$108,000	FY 2017-2018
City Facilities - Roof Replace	71059	\$1,188,000	FY 2018-2019
City Hall 1st Floor Remodel	74115	\$12,100	FY 2018-2019
FY 2018-19 Total		\$1,200,100	FY 2018-2019
Subtotal of General Fund Transfers to CIP		\$2,730,254	

Section IX, Item 12 — states that the City will provide replacement funding for fleet vehicles and major equipment using a Replacement Fund sinking account beginning fiscal year 2013- 14. Due to continued fiscal challenges, this provision had been suspended in many fiscal years adopted budgets. However, current city leases for police vehicles and the City Hall Air Condition system are funded using the General Fund and Building and Equipment Replacement Fund respectively. The Building and Equipment Replacement fund was established in FY 2015-16. Both funds annually appropriate and contribute \$215,000 to fund these leases. The police vehicle lease payment schedule ends in FY 2020-21, and the City Hall Air Condition system lease ends in FY 2027-28. To continue funding this on average \$215,000 annual payment, an identified funding source appropriation will need to be established as the original \$600,000 funding for the Building and Equipment Replacement Fund has been almost exhausted, and can only fund the FY 2019-20 payments.

In accordance with the Policy, many times in previous years the City Council suspended the provisions of Section IX, items 5 and 12 as stated above, it further provided that first consideration for the use of one-time revenue would be for the restoration of fund balance to meet the Fund Balance Policy requirements; New facilities or programs would only be considered if there was no additional impact on the General Fund or an existing service was sufficiently reduced to cover the costs; that if there were additional ongoing resources identified, the prioritization of the use of these resources would be presented to the City Council but that staff recommendations would be consistent with the Fiscal Sustainability and Fund Balance

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policies and long - range planning; and that the recommendation to purchase property must identify and include funds for the maintenance and oversight of the property.

FUND BALANCE POLICY

On June 20, 2011, the City Council adopted resolution number 2011 - 63A approving the City's Fund Balance Policy (Attachment 3). The objectives of the Policy are to comply with the Governmental Accounting Standards Board (GASB) Statement Number 54 -- Fund Balance Reporting and Governmental Fund Type Definitions; establish formal reserve policies; build adequate reserves; and guide the City toward meeting its short and long - term obligations. The Policy states that at the end of each fiscal year, the City shall have a Committed Fund Balance equal to 17% of operating expenditures in the General Fund. The 17% is to be considered the minimum level and represents funding for two months of General Fund operations. Because the required fund balance amount (17% of expenditures) was significantly more than the City had in the General Fund, the Policy provided a tiered approach to achieving the 17% no later than 2019-20. The tiered schedule is as follows:

8.0% by June 30, 2012
9.0% by June 30, 2013
10.0% by June 30, 2014
11.0% by June 30, 2015
12.0% by June 30, 2016
13.0% by June 30, 2017
14.0% by June 30, 2018
15.5% by June 30, 2019
17.0% by June 30, 2020

GENERAL FUND RESERVES OVER THE LAST 10 YEARS

Based on the unaudited FY 2018-19 actuals, and as reported to the Mayor and City Council in the November 18, 2019 First Quarter Budget Review, the General Fund should have \$21.7M in Fund Balance at June 30, 2019. However, based on pre audit actuals, the required 17% fund balance when comparing to the FY 2019-20 amended budget as of November 18, 2019 is \$19.8M and the actual fund balance exceeds the fund balance requirement by approximately \$1.9M. Table 2 displays this information in more detail. As a note, any increases to appropriations also increase the minimum fund balance requirement.

Table 2 – General Fund Balance

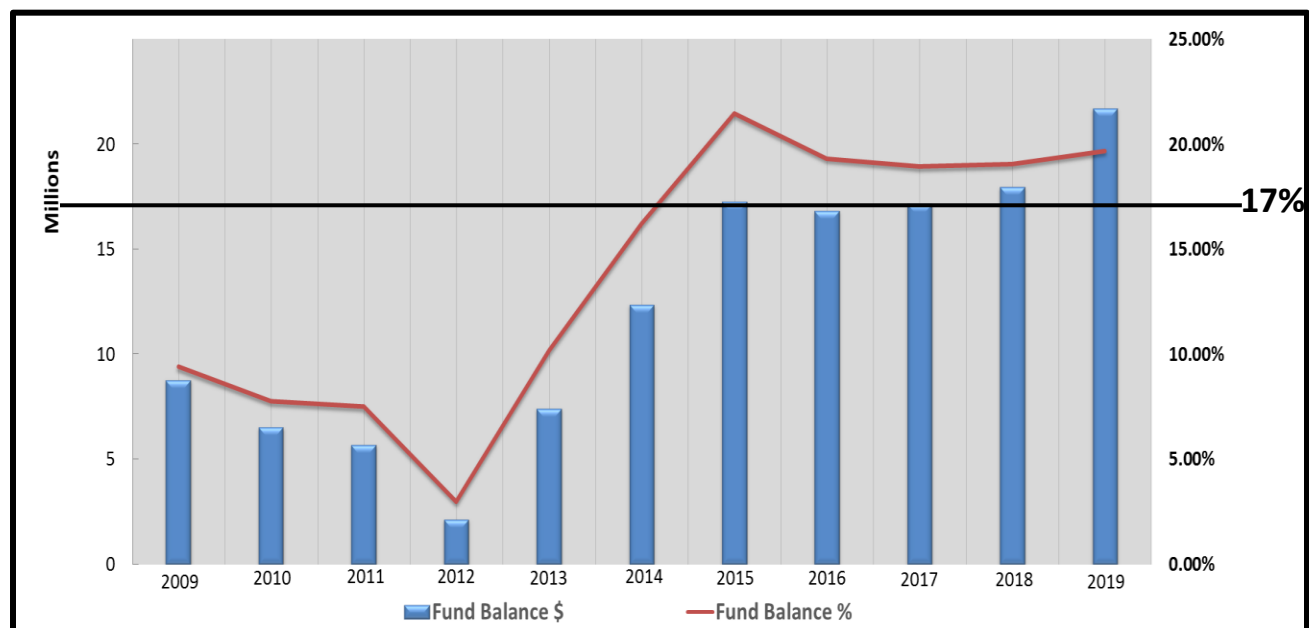
General Fund Balance		
Fund Balance FY 2017-18 (Based on CAFR)	\$17,974,000	
Estimated FY 2018-19 General Fund Surplus (Unaudited)	4,386,813	
Estimated Budgeted Fund Balance FY 2018-19	22,360,813	
Estimated FY 2019-20 Revenues	116,026,309	
Estimated FY 2019-20 Appropriations and Transfers	116,668,310	
Est. Ending Fund Balance FY 2019-20	21,718,812	18.6%
Fund Balance per graduated benchmark for FY 2019-20 (17%)	19,833,613	17.0%
Difference in 17% vs 18.6%	\$1,885,199	

Table 3 and table 4 displays ten years of ending fund balance compared to the actual General Fund expenditures for the respective audited year (except FY 2018-19, which the CAFR has not been completed as of yet). Comparing the fund balance Policy schedule, the fund balance realized each year exceeded the minimum each year except for FY 2011-12 which was at a 2.98% level compared to the recommended 8%. From FY 2012-13 to the current fiscal year, the minimum of 17% was reached in all years except FY 2013-14 which was 16.21%, however only a recommend level of 10% was required. All FY 2014-15 forward all fiscal years were over the benchmark of 17% when comparing to the respective audited expenditures, once the CAFR was completed.

Table 3 – Ten Year History of Fund Balance

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund Balance	8,796,614	6,535,641	5,689,100	2,148,019	7,426,718	12,373,245	17,288,103	16,839,652	17,164,873	17,974,000	21,718,812
Expenditures	93,701,051	84,315,931	75,885,240	72,122,780	73,180,009	76,320,311	80,483,743	87,093,729	90,622,270	94,322,327	106,434,660 *
Actual %	9.39%	7.75%	7.50%	2.98%	10.15%	16.21%	21.48%	19.34%	18.94%	19.06%	20.41%
Benchmark %				8.00%	9.00%	10.00%	11.00%	12.00%	13.00%	14.00%	15.50%
* 1st Quarter report unaudited											

Table 4 displays the data contained in table 3 to show a comparison of the established benchmark schedule that the Policy provided, which is a tiered approach to achieving the 17% no later than FY 2019-20. Table 4 shows how over ten years the fund balance has grown, and most recently since FY 2013-14 has reached at least 16% and has continued to reach a level between 19%-20%. It also should be noted as the annual General Fund expenditures increase each fiscal year, so will the Fund Balance Policy amount required. For every \$830,000 that the General Fund appropriations increases \$170,000 must be added to Fund Balance reserves to meet the Policy requirement.

Table 4 – Ten Year History of Fund Balance vs Benchmark Level

SELF-INSURANCE - NON-GENERAL FUND RESERVE POLICIES

Liability Fund and Workers' Compensation Fund Policies - The City shall maintain dedicated reserves equal to but not less than 25% of the value of the outstanding claims as reported in the most recent Comprehensive Annual Financial Report (CAFR). This applies to both the Liability Fund and Workers' Compensation Funds.

Liability Fund recognizes that not all claims will become due and payable at one point in time, yet there may be more than one large claim that could require an immediate payment. A reserve amount of 25% shall be achieved no later than fiscal year 2020. Workers' Compensation Fund is a citywide fund that addresses workers' compensation claims for all departments and all funds. In addition, there are citywide rates charged in order to properly fund current year and future liabilities. For both Funds a reserve amount of 25% shall be achieved no later than FY 2019-20 based on the following schedule:

1.5% by June 30, 2012
 4.25% by June 30, 2013
 7.00% by June 30, 2014
 9.75% by June 30, 2015
 12.50% by June 30, 2016
 15.25% by June 30, 2017
 18.00% by June 30, 2018
 21.00% by June 30, 2019
 25.00% by June 30, 2020

Unemployment Fund Reserve Policy - The City shall pay all Unemployment claims on a pay-as-you go basis and therefore, a fund balance reserve is not required for this fund. Table 5 displays the available balance in the self-insurance fund (all three areas) which as displayed exceeds the 25% of claims liability required.

Table 5 – Self Insurance Funds Balance to Date

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19*
Current Cash & Investments	\$8,619,505	\$8,685,730	\$8,072,761	\$8,484,062
Current Liabilities	\$288,845	\$163,096	\$32,764	\$24,064
25% of Claims Liabilities	\$3,514,304	\$3,610,041	\$3,624,280	\$3,297,511
	\$3,803,149	\$3,773,137	\$3,657,044	\$3,321,575
Available Balance	\$4,816,356	\$4,912,593	\$4,415,718	\$5,162,488
<i>*Audit not yet complete</i>				

CONCLUSION

As stated in the Executive Summary, the purpose of this report is to give the City Council an overview of FY 2020-21 Budget process and approve the annual Guiding Principles for the upcoming budget year. These are both defined within from the City's Fiscal Sustainability

Policy established in 2011. The City has increased its General fund balance over the last 10 years from a low of 2.98% in FY 2011-12 and reached a high of 21.48% of audited General Fund expenditures in FY 2015-16. The City's Sustainability Policy recommends contributions to a Replacement Funding for fleet vehicles and major equipment and states that the City's objective will be to dedicate a contribution to the Capital Improvement Program (CIP) as well. Both of these clauses have been suspended regularly in fiscal years past; however history shows that significant contributions have been made in these areas via the budget amendment process. It is highly recommended to budget appropriations with the FY 2020-21 budget in these two areas, as well as provide an annual contribution to General Fund reserves to insure the minimum fund balance is established.

The unaudited actuals at this time, and as detailed in the FY 2019-20 General Fund 1st Quarter Review (presented to the City Council on November 18, 2019), indicate that the minimum reserve Policy amount of 17% is projected to be met. All City Departments will continue to operate within budget while carefully monitoring expenditures and all revenues will need to come in on target or above projections before the year ending June 30, 2020. Finance Department Staff will continue to apprise the Mayor and City Council of any significant financial impacts.

To further the City's Fiscal Sustainability Policy and Fund Balance Policy review, it is recommended that the City's Financial Advisor UFI assist staff in providing an analysis to explore a new Fund Balance Policy schedule which most likely would increase the 17% minimum. This detailed analysis will link the areas discussed to identify set contributions to CIP, replacement funding for fleet vehicles and major equipment, and General Fund and Self Insurance Fund reserves. A final area to address is the long term retirement liability costs that the City will continue to incur, such as PERS unfunded actuarial liability (UAL) and retiree health benefits which are currently underfunded.

To continue review of this process, the Finance Department proposes future meetings with the City Council labor subcommittee to discuss these and other ideas, which in the end will be submitted as an update to the City's Fiscal Sustainability Policy. Factors to look at would include, but not be limited to comparisons to other jurisdictions, risk and rewards analysis, and additional quantitative data to enhance our City's Fiscal Sustainability Policy.

COUNCIL PRIORITIES & GOALS: This item supports the Fiscal Year 2019-20 City Council Priorities and Goals - Priority 1 (GOAL A): Continue to insure that the City has sufficient financial reserves in accordance with the City Fund Balance Policy, including at least 17% of General Fund operational budget for General Fund Reserves.

Prepared by:

Andrew Mowbray
Finance Director/City Treasurer

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ATTACHMENT(S):

Attachment No. 1 – Budget Guiding Principles for 2020-21

Attachment No. 2 – Fiscal Sustainability Policy

Attachment No. 3 – Fund Balance Policy