



AGENDA MEMORANDUM

Future Item for the City Council Meeting of May 28, 2013
Action Item for the City Council Meeting of June 11, 2013

DATE: May 28, 2013

TO: Ronald L. Olson, City Manager

FROM: Constance P. Sanchez, Director of Financial Services
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Amendment to Financial Policies

CAPTION:

Resolution amending Financial Policies adopted by Resolution 029826 and providing financial policy direction on preparation of the annual budgets.

PURPOSE:

Section 4.5 "Enterprise Funds" is being recommended for amendment to clarify the calculation of the operating reserve for the enterprise funds to exclude annual debt service payments which have either a separate reserve account or a surety policy (an "insurance policy" used to guarantee bond payments in the event the City could not make its bond payments).

BACKGROUND AND FINDINGS:

The financial policies were amended in May 2012 to add a section (Section 4) on "Committed Fund Balances". This section delineated the City's goal to build and maintain an operating reserve specific to each fund type: internal service funds, enterprise funds, and the debt service fund. The fiscal year ended July 31, 2012 was the first year that these operating reserves were calculated, and in the course of calculating the operating reserve for the utility funds, it was determined that the annual debt service appropriation should be excluded from the computation since either a separate debt service reserve is maintained for utility revenue bonds, or a surety policy is in place to guarantee payment to the bondholders in the event that the City could not make its debt payment. By excluding the debt payment from the computation, a smaller operating reserve is required; thus allowing more fund balance to be used for other

purposes, such as cash-funding capital projects (rather than issuing bonds). This agenda item adds the phrase “exclusive of debt service” to Section 4.5 to give the City more flexibility in its management of the utility funds.

ALTERNATIVES:

An alternative would be to leave the Financial Policies as they currently are written to include debt service payments in the calculation of the operating reserve for the utility funds. A higher operating reserve would result, and less fund balance could be used to cash fund capital fund projects and lower expenditures.

OTHER CONSIDERATIONS:

n/a

CONFORMITY TO CITY POLICY:

This item conforms to City policy.

EMERGENCY / NON-EMERGENCY:

n/a

DEPARTMENTAL CLEARANCES:

- Office of Management and Budget
- Financial Services
- Legal

FINANCIAL IMPACT:

X Not Applicable Operating Expense Revenue CIP

FISCAL YEAR:	Project to Date Exp. (CIP Only)	Current Year	Future Years	TOTALS
Budget				
Encumbered/Expended amount of (date)				
This item				
BALANCE				
Fund(s):				

RECOMMENDATION:

Staff recommends approval of the amendment as presented.

LIST OF SUPPORTING DOCUMENTS:

Resolution Redline
Resolution