



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer A. Maguire

SUBJECT: GENERAL FUND ENDING
FUND BALANCE POLICY
DISCUSSION

DATE: May 7, 2015

Approved

Date

5/7/15

INFORMATION

This memorandum provides information in preparation for the City Council policy discussion on General Fund Excess Ending Fund Balance that is currently scheduled as part of the 2015-2016 Budget Study Session on Friday May 8, 2015. The portion of the Operating Budget and Capital Improvement Program Policy (Council Policy 1-18) that addresses the distribution of fund balance is outlined below, as is additional specific direction by the City Council that was given in June 2014 as part of their approval of the Mayor's June Budget Message for Fiscal Year 2014-2015. A ten-year General Fund Ending Fund Balance history is also included.

Operating Budget and Capital Improvement Program Policy (Council Policy 1-18)

The Operating Budget and Capital Improvement Program Policy (Council Policy 1-18) includes direction on the allocation of fund balance as follows:

4. Fund Balance

The appropriation of carryover fund balances must be approved judiciously. This should ensure that ongoing expenditures will be budgeted only to the extent that proven revenue streams exist.

In the annual budget, and in subsequent reports, there will be a presentation on fund balances and their anticipated uses.

- a) *The first increment of any General Fund "Ending Fund Balance" identified in the City Manager's Annual Report shall be split 50% for unmet/deferred infrastructure and maintenance needs in the areas of: 1) transportation; 2)*

May 7, 2015

Subject: General Fund Ending Fund Balance Policy Discussion

Page 2

technology infrastructure and software upgrades; 3) fleet replacement; and 4) building facilities at the recommendation of the City Manager and approval by the City Council, and 50% to offset any projected deficit for the following fiscal year, after necessary appropriation adjustment actions to rebudget funds, correct errors, or reflect updated cost information have been accounted for in the fund balance reconciliation.

- b) *If the projected deficit is less than the amount allocated for this purpose, the remaining funds shall be allocated for the following uses:*
- 1) *Budget Stabilization Reserve.*
 - 2) *Unmet/deferred infrastructure and maintenance needs.*
 - 3) *Other one-time urgent funding needs.*
- c) *Annual surplus funds shall not be used for ongoing expenditures, unless these expenditures can be accommodated in Year Two and possible Year Three of the five year financial forecast. Any available carryover balance should only be used to offset one-time costs or to increase revenues.*

Additional City Council Direction for 2014-2015

In the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, several sources were identified to begin funding the Police Department Staffing/Operations Reserve. As part of the funding strategy, one-time vacancy savings from the Police Department from unfilled positions that are not already rebudgeted for police overtime or other urgent needs were directed to be allocated to the Police Department Staffing/Operations Reserve until 141 new sworn positions have been filled on an ongoing basis (bringing total sworn staffing to 1,250 positions). These savings would have otherwise been included in the Ending Fund Balance.

Further direction was provided in the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, to prioritize the funding of the Silicon Valley Regional Communication System (SVRCS) as an unmet/deferred infrastructure need, consistent with Provision 4 of Council Policy 1-18, as discussed above, after any necessary corrections, clean-ups, and/or rebudgets, until the SVRCS is funded.

Ten-Year General Fund Ending Fund Balance History

Each year, in October, as part of the City Council's review and approval Annual Report, any remaining Ending Fund Balance above the level assumed in the development of the annual budget is distributed. Per City Council Policy, the funds are first used to complete clean-up actions related to the close-out of the prior fiscal year, including any necessary rebudgets and

HONORABLE MAYOR AND CITY COUNCIL

May 7, 2015

Subject: General Fund Ending Fund Balance Policy Discussion

Page 3

other clean-up adjustments, such as the Development Fee Program reconciliations. The funds are then used, as appropriate, to correct errors and/or address any needs generated from updated cost or revenue information in the current year. After these adjustments, the Ending Fund Balance is then distributed as directed by Council Policy 1-18, Provision 4.

Attachment A provides details on the General Fund Ending Fund Balances for the past 10 years. For each year, it shows the excess Ending Fund Balance from that year, the amount allocated for rebudgets and clean-up actions to close out the prior fiscal year, as well as the required budget adjustments to address current year budget issues. The remaining Ending Fund Balance after these clean-up actions and required adjustments represent the amount available for allocation according to City Council Policy 1-18. Over the past ten-years, funds were distributed to the Future Deficit Reserve and/or to unmet/deferred infrastructure maintenance needs in 6 of the years. In the remaining 4 years, there was no funding available to distribute after addressing the necessary clean-up actions and required budget adjustments.



JENNIFER A. MAGUIRE
Interim Senior Deputy City Manager/
Budget Director

Please contact Margaret McCahan, Assistant Budget Director, at 535-8144 if you have any questions.

Ten-Year General Fund Ending Fund Balance History (\$000s)										
	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Excess Ending Fund Balance	30,317	34,596	42,161	20,770	20,221	6,591	16,263	12,833	2,175	17,559
Fiscal Year Close-Out Clean-Up Actions										
Rebudgets/ Clean-Up Actions	(9,773)	(15,025)	(16,418)	(2,392)	(6,899)	(3,041)	(8,142)	(5,590)	2,671	(9,211)
Ending Fund Balance After Clean-Up Actions	20,544	19,571	25,743	18,378	13,322	3,550	8,121	7,243	4,846	8,348
Required Budget Adjustments										
Required Technical/ Rebalancing Actions	(8,091)	(13,134)	(12,071)	(8,576)	3,895	(3,550)	4,561	3,257	3,248	(26)
Police Department Staff/Operations Reserve	-	-	-	-	-	-	-	-	-	(3,000)
Urgent Fiscal/ Program Needs	-	-	-	-	(17,217)	-	(1,065)	(10,500)	(8,094)	(2,192)
Ending Fund Balance Available for Distribution per Policy	12,453	6,437	13,672	9,802	-	-	11,617	-	-	3,130
Excess Ending Fund Balance Distribution										
Future Deficit Reserve	(12,453)	(6,437)	(6,836)	(4,000)	-	-	(11,617) *	-	-	-
Unmet/Deferred Infrastructure	-	-	(6,836)	(5,802)	-	-	-	-	-	-
Unmet/Deferred Infrastructure - Silicon Valley Regional Communications System Reserve	-	-	-	-	-	-	-	-	-	(3,130)
Remaining Ending Fund Balance	-	-	-	-	-	-	-	-	-	-

* Includes Ending Fund Balance available after clean-up actions to closeout 2010-2011 (\$8,121) and net positive funding resulting from required Budget Adjustments (\$3,496).