



City of La Quinta

CITY / SA / HA / FA MEETING DATE: February 3, 2015

AGENDA CATEGORY:

ITEM TITLE: FISCAL YEAR 2013/2014 YEAR END,
FISCAL YEAR 2014/2015 MIDYEAR UPDATE AND
RESERVE POLICY REVIEW

BUSINESS SESSION:

CONSENT CALENDAR:

STUDY SESSION: 1

PUBLIC HEARING:

RECOMMENDED ACTION:

Review the Fiscal Year 2013/2014 year-end budget report, Fiscal Year 2013/2014 Mid-Year Update, and potential budget reserve policies. The direction staff receives regarding the Fiscal Year 2014/2015 budget and reserve policies will be scheduled for City Council Consideration on February 17, 2015.

EXECUTIVE SUMMARY:

- This report is divided into three sections: Fiscal Year (FY) 2013/2014, FY 2014/2015, and Budget Reserves:
 - 1) The Fiscal Year 2013-2014 has closed and the official financial statements issued. This report summarizes expenditures, revenues and General fund balances for the year ended June 30, 2014.
 - 2) Every February revenues and expenditures for the current year are reviewed and updated if necessary. This report also discusses updated estimates for Fiscal Year 2014/2015.
 - 3) As part of the on-going financial management of the City, a review of reserve policies should be conducted periodically. This report presents the recommendations of the Investment Advisory Board as well as other issues to consider when developing reserve policies.

FISCAL IMPACT:

As this is a study session, there is no fiscal impact from this report.

BACKGROUND/ANALYSIS:

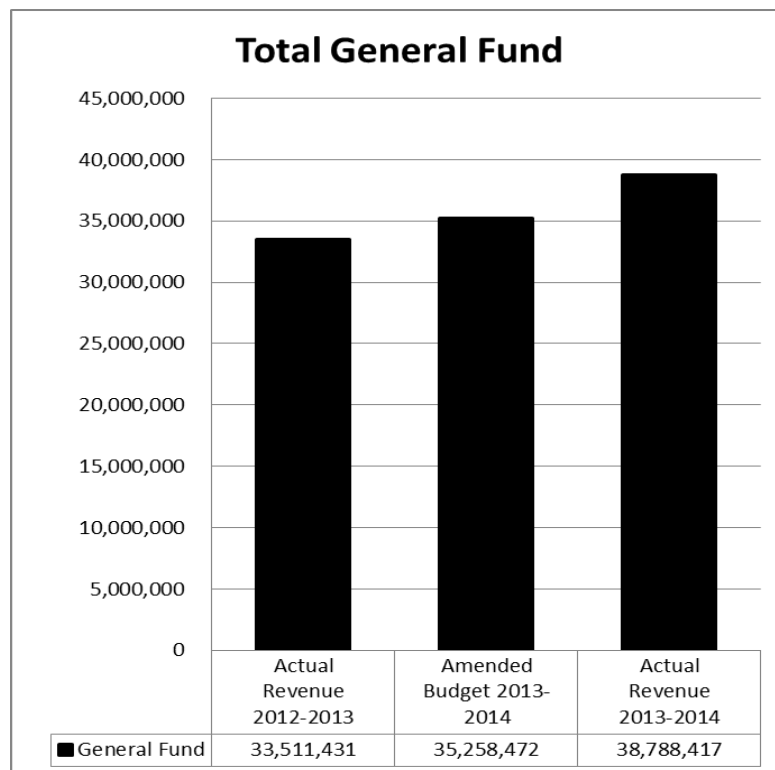
Fiscal Year 2013/2014

Revenues and Transfers-In of \$38.7 million exceeded expenditures of \$33.3 million (not including carryovers) by \$5.4 million. Including carryover of appropriations (including capital improvement projects-CIP) of \$2 million, this gap decreases to \$3.4 million.

While expenditures in general remain relatively stable during a fiscal year, revenues tend to fluctuate because of the varying nature of revenue sources (there are approximately 110 revenue sources in the General Fund budget). Accordingly, more discussion accompanies the revenue narrative of this report. For both revenues and expenditures, significant variances in FY 2013/2014 budget to actuals, as well as FY 2012/2013 to FY 2013/2014 variances are discussed below.

FY 2013/2014 Revenues in Total

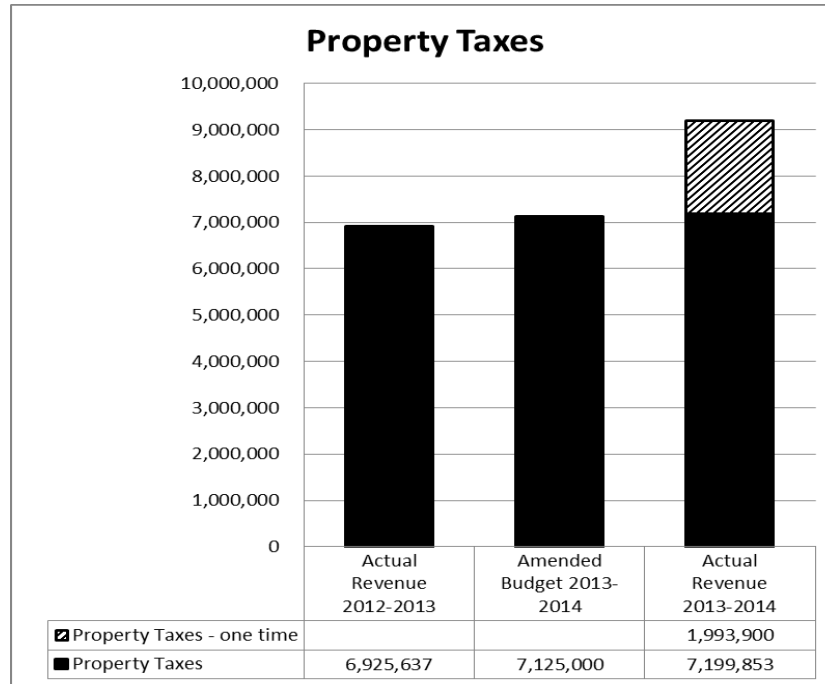
General Fund revenues overall in FY 2013/2014 were \$3.5 million (10 percent) higher than budgeted (based on the amended budget). Compared to FY 2012/2013 revenues overall were \$5.3 million higher in FY 2013/2014.



Property Tax

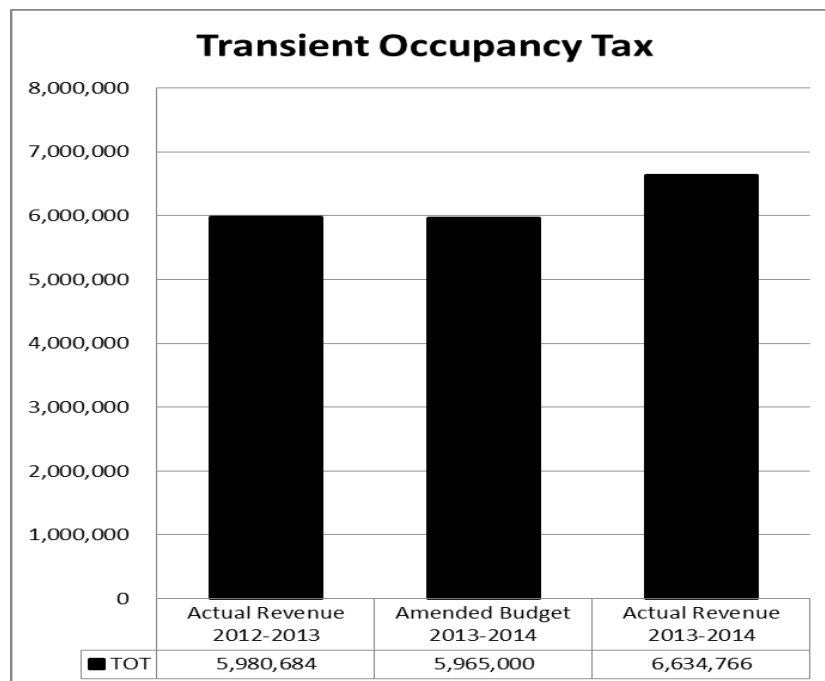
The most significant reason for the overall increase in General Fund revenue was a \$1.99 million payment from the Redevelopment Property Tax Fund (RPTTF). This payment was one-time in nature and related to the dissolution of the Redevelopment Agency and the City’s “share” of funds returned to the State by the City. After accounting for this one-time payment, property tax revenue was less than one percent higher than budgeted. Compared to FY 2012/2013 (adjusted

for this one-time payment) property tax was approximately four percent higher in FY 2013/2014.



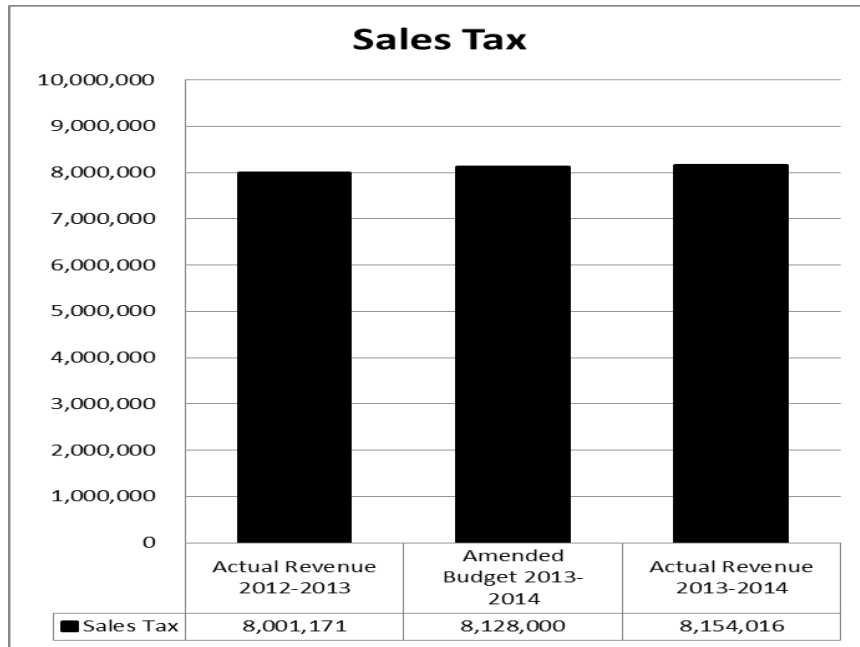
Transient Occupancy Tax (TOT)

TOT receipts were \$669,800 higher than budgeted (11 percent). This is due primarily to increase efforts to collect TOT from short-term vacation rentals. TOT for FY 2013/2014 was 11 percent higher than FY 2012/2013 collections.



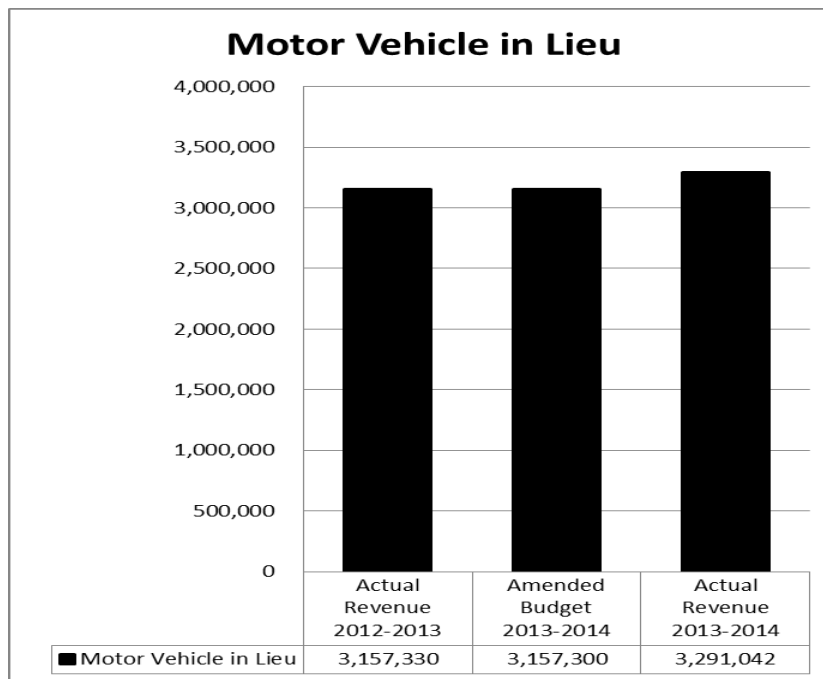
Sales Tax

Sales Tax collections were less than one percent higher than budgeted (\$26,000). Compared to FY 2012/2013, collections were 2 percent higher in FY 2013/2014.



Property Tax in Lieu of Vehicle License Fees

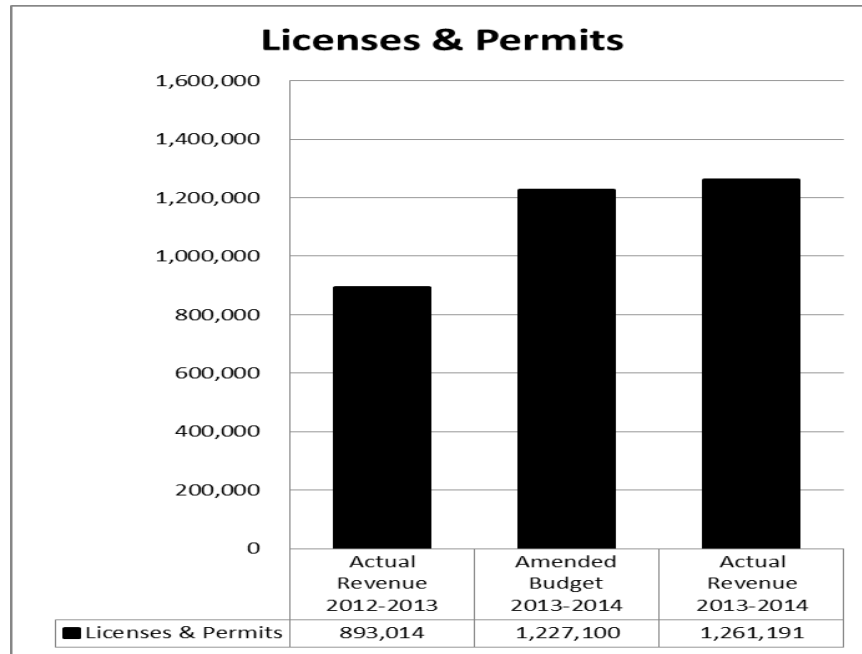
Commonly referred to as the Motor Vehicle in Lieu Fee (MVLFF), this revenue is a subvention from the State. It replaced the City's share of motor vehicle license fees from the State starting in 2005. The payment is based on a calculation by the State that factors in the growth of the City's assessed valuation. The MVLFF payment from the State was \$133,742 higher than budgeted (four percent) in FY 2013/2014. Compared to FY 2012/2013, collections were four percent higher in FY 2013/2014.



Licenses and Permits

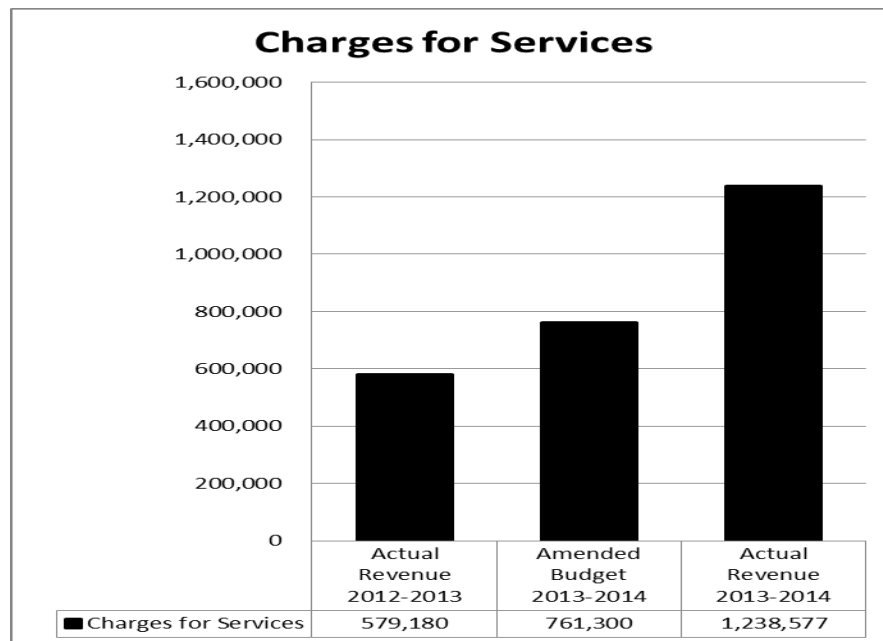
The category of Licenses and Permits is comprised of about 24 different revenue items including Business Licenses, and various Public Works and Building and

Safety permits. This category was three percent higher (\$34,091) than budgeted. However, compared to FY 2012/2013, this category was up 41 percent in FY 2013/2014.



Charges for Services

The category of Charges for Services is comprised of 38 different revenue items including Plan Check and a variety of other planning fees, as well as various Community Services fees. This category was 63 percent higher (\$477,272) than budgeted in FY 2013/2014. Compared to FY 2012/2013, this category was over 100 percent higher (\$659,937) in FY 2013/2014.



FY 2013/2014 Expenditures

Expenditures overall were \$3.6 less than budgeted at \$33.4 million. However,

approximately \$1.8 million in expenditure savings was carried over to the new year for projects and items that were budgeted in FY 2013/2014 but will be not be expended to FY 2014/2015. Of this \$1.8 million, \$1.5 million is related to Capital Improvement Projects (CIP). So, factoring in carryovers, the amount of expenditure savings is reduced by almost half from \$3.6 million to \$1.7 million. Compared to FY 2012/2013 expenditures, FY 2013/2014 expenditures were approximately \$780,000 (two percent). The most significant variances and/or overages in FY 2013/2014 are discussed below in the "FY 2013-/014 General Fund Expenditure Summary" chart:

City of La Quinta FY 2013-2014 General Fund Expenditure Summary	BUDGET TO ACTUAL			
	FY 2013- 2014 FINAL BUDGET	FY 2013-2014 ACTUALS	UNDER/(OVER) FINAL BUDGET	PERCENT UNDER/(OVER) BUDGET
GENERAL GOVERNMENT				
CITY COUNCIL	724,600	645,145	79,455	11%
CITY MANAGER	724,981	594,275	130,706	18%
HUMAN RESOURCES	761,600	637,887	123,713	16%
CITY CLERK	388,800	359,686	29,114	7%
SUB-TOTAL	2,599,981	2,236,993	362,988	14%
FINANCE/CENTRAL SERVICES				
FINANCE	856,413	872,791	(16,378)	-2%
CENTRAL SERVICES/TRANSFERS OUT	3,389,658	1,272,669	2,116,989	62%
SUBTOTAL	4,246,071	2,145,460	2,100,611	49%
PUBLIC SAFETY				
POLICE	13,468,659	13,639,206	(170,547)	-1%
FIRE	5,289,359	4,699,410	589,949	11%
SUBTOTAL	18,758,018	18,338,615	419,403	2%
COMMUNITY SERVICES				
CS (COMMUNITY SERVICES)/ADMIN	1,001,540	846,872	154,668	15%
CS-SENIOR CENTER	385,200	353,977	31,223	8%
CS-PROGRAMS	198,100	207,963	(9,863)	-5%
CS-LIBRARY	-	-	-	-
CS-PARKS MAINTENANCE	1,535,600	1,380,720	154,881	10%
CS-MUSEUM	-	-	-	-
CS-MARKETING & COMMUNITY RELATIONS	578,100	572,063	6,037	1%
CS-PUBLIC BUILDINGS	1,032,500	944,961	87,539	8%
SUBTOTAL	4,731,040	4,306,555	424,485	9%
COMMUNITY DEVELOPMENT				
CD (COMMUNITY DEVELOPMENT)/ADMIN	706,120	670,081	36,039	5%
CD-PLANNING	494,574	362,625	131,949	27%
CD-BUILDING	961,300	927,446	33,854	4%
CD-CODE & ANIMAL CONTROL	795,600	733,339	62,261	8%
CD-EMERGENCY SERVICES	199,200	187,821	11,379	6%
SUBTOTAL	3,156,794	2,881,312	275,482	9%
PUBLIC WORKS				
PW (PUBLIC WORKS)/ADMIN	450,254	483,168	(32,914)	-7%
PW-DEVELOPMENT SERVICES	637,800	584,884	52,916	8%
PW-STREETS	1,008,015	1,028,177	(20,162)	-2%
PW-LIGHTING & LANDSCAPING	698,431	355,891	342,540	49%
PW-ENGINEERING SERVICES	678,946	998,202	(319,256)	-47%
SUBTOTAL	3,473,446	3,450,321	23,125	1%
GENERAL FUND GRAND TOTAL	36,965,350	33,359,256	3,606,094	10%

BUDGET TO ACTUAL WITH CARRYOVERS			
CARRYOVERS	FY 2013-2014 ACTUALS WITH CARRYOVERS	UNDER/ (OVER) FINAL BUDGET	PERCENT UNDER/ (OVER) BUDGET
	645,145	79,455	11%
75,000	669,275	55,706	8%
	637,887	123,713	16%
3,015	362,701	26,099	7%
78,015	2,315,008	284,973	11%
		-	-
	872,791	(16,378)	-2%
1,507,429	2,780,098	609,560	18%
1,507,429	3,652,889	593,182	14%
	13,696,452	(227,793)	-2%
57,246	4,699,410	589,949	11%
57,246	18,395,861	362,157	2%
50,000	896,872	104,668	10%
	353,977	31,223	8%
2,968	210,931	(12,831)	-6%
	-	-	-
	1,380,720	154,881	10%
	-	-	-
30,000	602,063	(23,963)	-4%
	944,961	87,539	8%
82,968	4,389,523	341,517	7%
		-	-
	677,018	29,102	4%
15,809	378,434	116,140	23%
	927,446	33,854	4%
7,669	741,008	54,592	7%
	187,821	11,379	6%
30,415	2,911,727	245,067	8%
28,290	511,458	(61,204)	-14%
24,937	609,821	27,979	4%
28,707	1,056,884	(48,869)	-5%
13,000	368,891	329,540	47%
12,771	1,010,973	(332,027)	-49%
107,705	3,558,026	(84,580)	-2%
1,863,778	35,223,034	1,742,316	5%

Police Services

Police Services were \$170,547 higher than budgeted. The primary reason for this overage was for a FY 2012/2013 "true-up" payment that was made in FY 2013/2014. Compared with FY 2012/2013, FY 2013/2014 Police Services costs were \$1.27 million higher.

Reimbursements from Other Funds

The Finance Department, and the Administration, Streets, and Engineering Divisions of Public Works all report overages. However, these overages are due to

reimbursements to the departments coming in less than budgeted. This occurred because the City's operating budget was structured to be reimbursed for staff and supply costs related to implement former Redevelopment Agency projects. When the Redevelopment Agency was eliminated, these reimbursement abruptly ceased. Reimbursements in total for these four cost centers were under budget by \$593,198. The chart below adjusts for shortfalls in reimbursements so that true spending levels can be displayed. In the future, reimbursements will be categorized separately rather than netted against expenditures.

City of La Quinta FY 2013-2014 GF Expenditures Adjusted for Reimbursements	BUDGET TO ACTUAL			
	FY 2013- 2014 FINAL BUDGET	FY 2013-2014 ACTUALS	UNDER/(OVER) FINAL BUDGET	PERCENT UNDER/(OVER) BUDGET
GENERAL GOVERNMENT				
FINANCE	856,413	872,791	(16,378)	-2%
PW (PUBLIC WORKS)/ADMIN	450,254	483,168	(32,914)	-7%
PW-STREETS	1,008,015	1,028,177	(20,162)	-2%
PW-ENGINEERING SERVICES	678,946	998,202	(319,256)	-47%
TOTAL	2,137,215	2,509,546	(372,331)	-17%

BUDGET TO ACTUAL ADJUSTED FOR REIMBURSEMENTS			
ADJUSTMENT FOR REIMBURSEMENTS	FY 2013-2014 ADJUSTED ACTUALS	UNDER/(OVER) FINAL BUDGET	PERCENT UNDER/(OVER) BUDGET
(49,614)	823,177	33,236	4%
(68,187)	414,981	35,273	8%
(97,767)	930,410	77,605	8%
(377,630)	620,572	58,374	9%
(593,198)	1,916,348	220,867	10%

Fiscal Year 2014/2015

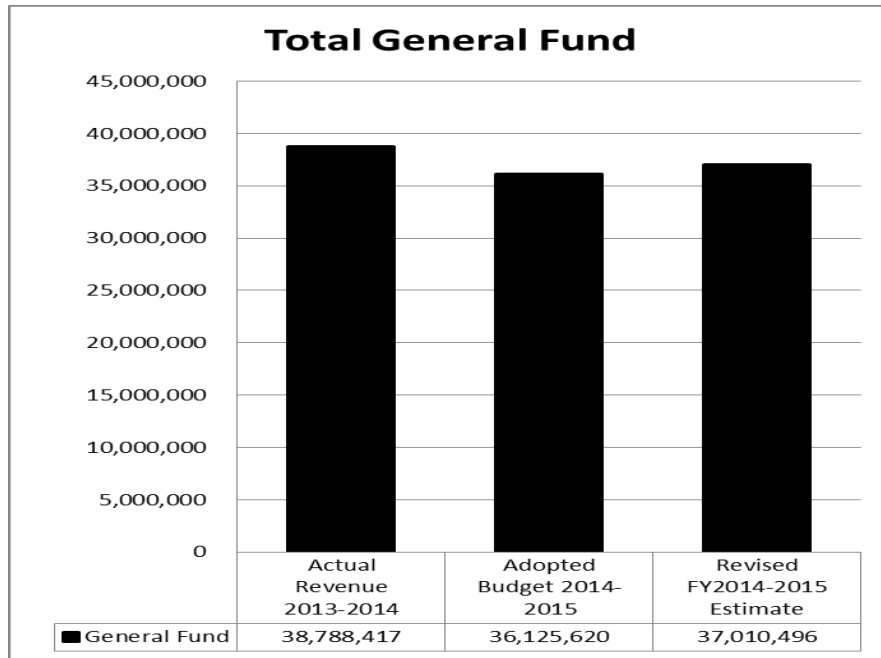
The FY 2014/2015 Adopted Budget (the current year budget) includes revenue and transfer-in estimates of \$36,125,620 and expenditure and transfer-out estimates of \$35,947,266, leaving an estimated variance of income to expenditures of \$178,354

While expenditures in general remain relatively stable during a fiscal year, revenues tend to fluctuate because of the varying nature of revenue sources (there are approximately 110 revenue sources in the General Fund budget). Accordingly, more discussion accompanies the revenue portions of this report. For both revenues and expenditures, significant estimate changes in FY 2014/2015 estimates are discussed below.

FY 2014/2015 Revenues (Budget to Revised Estimates)

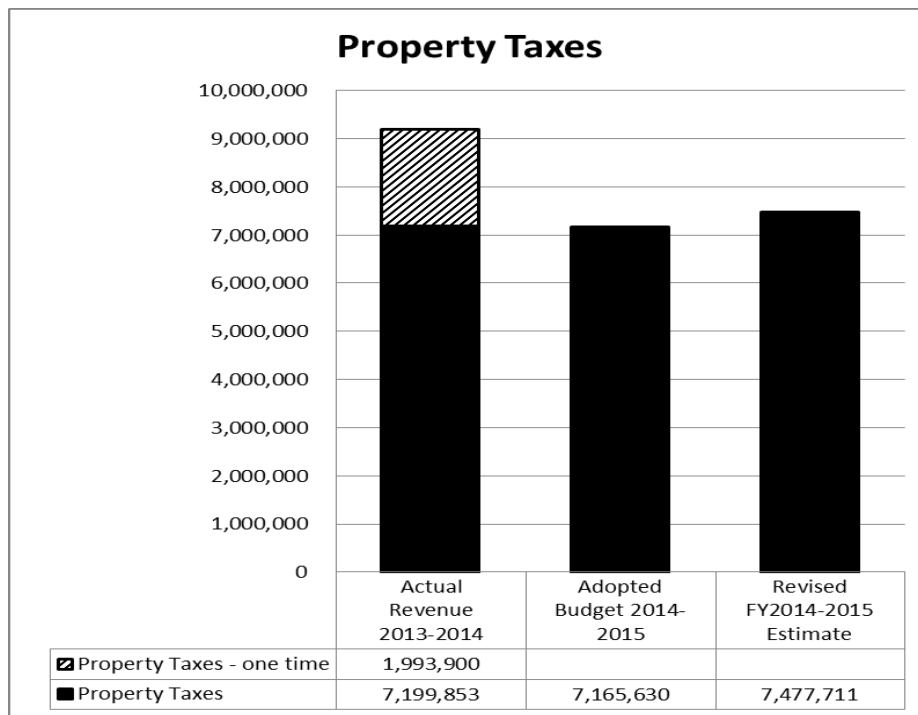
FY 2014/2015 Revenues in Total

General Fund revenues overall for FY 2014/2015 (included transfers-in) were budgeted at \$36,125,620. This estimate has been increased by two percent (\$884,000 to \$37,010,496).



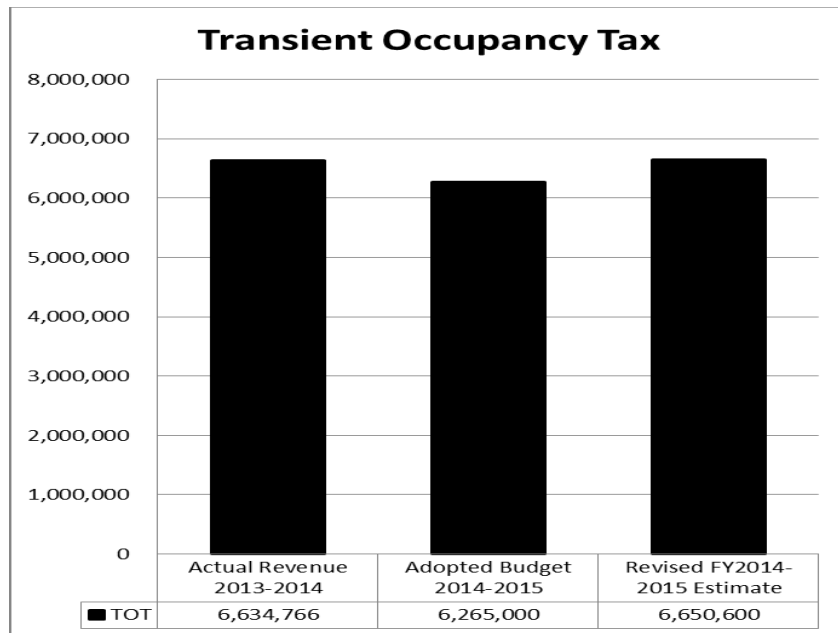
Property Tax

As mentioned previously, the City received a one-time distribution for the RPTTF related to the dissolution of the Redevelopment Agency in FY 2013/2014 that will not be repeated in FY 2014/2015. The City does receive on-going RPTTF distributions and in FY 2014/2015 this amount was approximately \$300,000 higher than expected; therefore, the property tax estimate has been revised accordingly. It is unclear whether this on-going distribution will remain at this level.



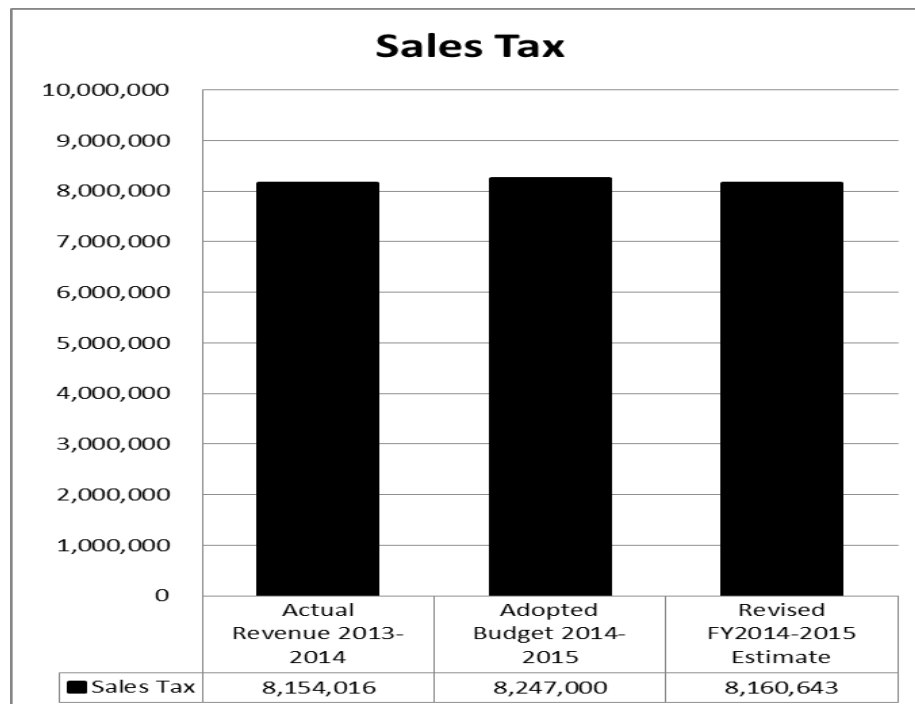
TOT

For FY 2014/2015, TOT estimates were increased by \$385,000 (seven percent) based on higher than expected collections in FY 2013/2014.



Sales Tax

Sales Tax estimates were reduced by one percent based on information from the County Auditor/Controller and the City's sales tax consultant. A portion of the sales tax the City receives is technically "property tax in lieu of sales tax" and is calculated by the County Auditor/Controller's Office each year. Every year there is a "clean-up" adjustment from the prior year and this adjustment of \$86,000 is responsible for this decrease.



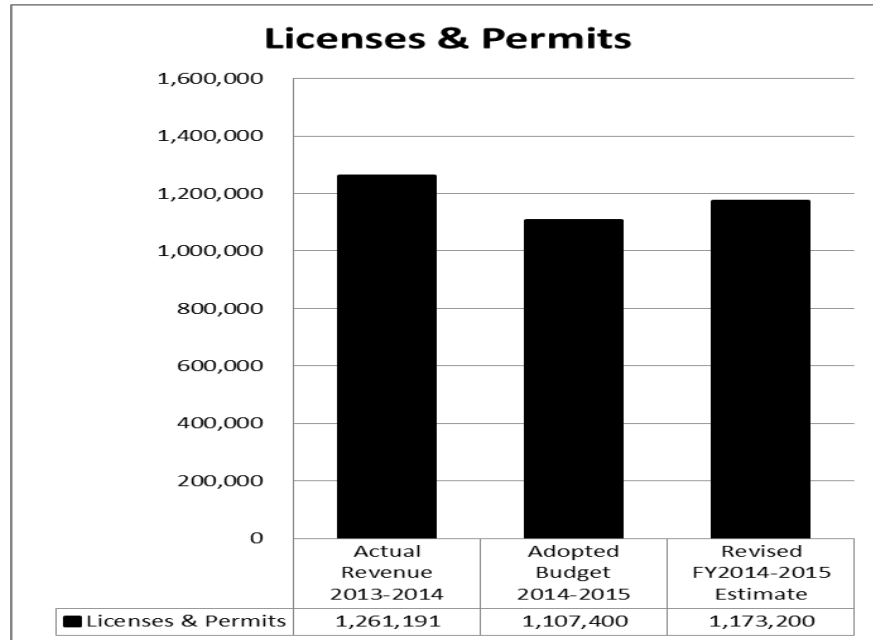
Property Tax in Lieu of Vehicle License Fees

There is no change to this estimate of \$3.4 million; it is mentioned in this report

because it is the fourth largest single revenue item to the City.

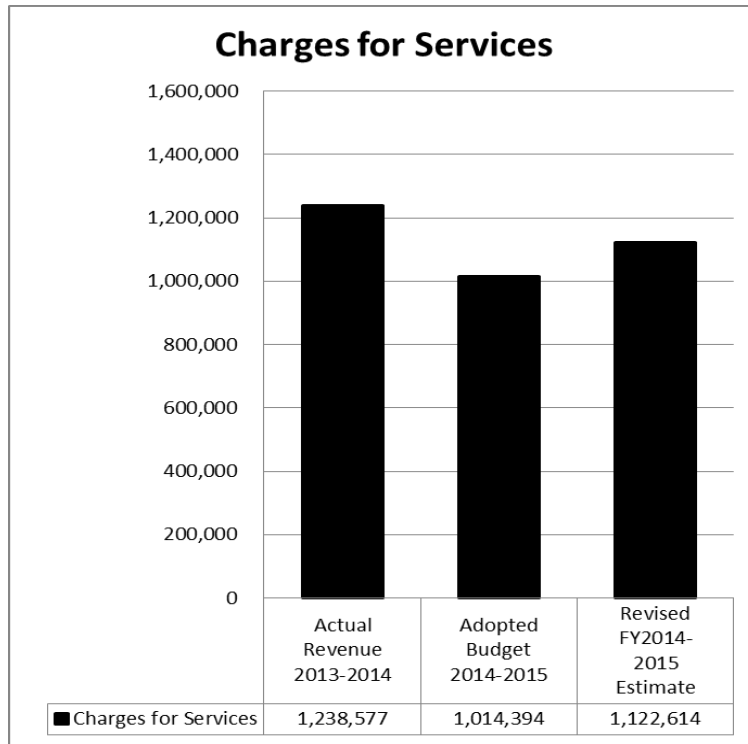
Licenses and Permits

The category of Licenses and Permits is comprised of about 24 different revenue items including Business Licenses, and various Public Works and Building and Safety permits. The FY 2014/2015 estimate for this category has been revised upward by \$65,800 to reflect increased activity reported by Community Development and Public Works.



Charges for Services

The category of Charges for Services is comprised of 38 different revenue items including Plan Check and a variety of other planning fees, as well as various Community Services fees. The estimate for this category has been revised by \$108,000 (11 percent) to reflect increased activity reported by Community Development and Public Works.



FY 2014/2015 Estimated Expenditures

The Adopted FY 2014/2015 expenditure budget has increased by \$1.9 million for previously approved carryovers from FY 2013/2014 and previously approved budget amendments. Currently, no departments are forecasting overages; however, expenditures will be monitored throughout the remainder of the year. Reimbursements from other funds to the General Fund fluctuate because they are based primarily on a percentage of CIP activity. The Finance Department may have an overage due to the retirement of a long-time employee and the associated payouts of leave time.

General Fund FY 2014-2015 Mid-Year Expenditure Update	FY 2014-2015 CURRENT BUDGET TO REVISED						
	FY 2014-2015 ADOPTED BUDGET	PREVIOUSLY APPROVED CARRYOVER BUDGETS	PREVIOUSLY APPROVED BUDGET AMENDMENTS	FY 2014-2015 CURRENT BUDGET (SUBTOTAL)	FY 2014-2015 REVISED MIDEAR ESTIMATE	CURRENT BUDGET TO REVISED VARIANCE	PERCENT INCREASE/ (DECREASE)
GENERAL GOVERNMENT							
CITY COUNCIL	283,031			283,031	283,031	-	0.00%
CITY MANAGER	872,970	75,000		947,970	947,970	-	0.00%
CITY ATTORNEY	380,000			380,000	380,000	-	
HUMAN RESOURCES	368,602			368,602	368,602	-	0.00%
CITY CLERK	441,501	3,015		444,516	444,516	-	0.00%
SUB-TOTAL	2,346,104	78,015	-	2,424,119	2,424,119	-	0.00%
FINANCE/CENTRAL SERVICES							
FINANCE	1,017,589			1,017,589	1,017,589	-	0.00%
CENTRAL SERVICES/TRANSFERS OUT	3,029,134	1,507,429		4,536,563	4,536,563	-	0.00%
SUBTOTAL	4,046,723	1,507,429	-	5,554,152	5,554,152	-	0.00%
PUBLIC SAFETY							
POLICE	13,560,025	57,246		13,617,271	13,617,271	-	0.00%
FIRE	5,378,712		35,281	5,413,993	5,413,993	-	0.00%
SUBTOTAL	18,938,737	57,246	35,281	19,031,264	19,031,264	-	0.00%
COMMUNITY SERVICES							
CS (COMMUNITY SERVICES)/ADMIN	1,008,094	50,000		1,058,094	1,058,094	-	0.00%
CS-SENIOR CENTER	375,458			375,458	375,458	-	0.00%
CS-PROGRAMS	185,853	2,968		188,821	188,821	-	0.00%
CS-LIBRARY				-	-	-	
CS-PARKS MAINTENANCE	1,413,905			1,413,905	1,413,905	-	0.00%
CS-MUSEUM	-			-	-	-	
CS-MARKETING & COMMUNITY RELATIONS	623,916	30,000		653,916	653,916	-	0.00%
CS-PUBLIC BUILDINGS	959,588			959,588	959,588	-	0.00%
SUBTOTAL	4,566,814	82,968	-	4,649,782	4,649,782	-	0.00%
COMMUNITY DEVELOPMENT							
CD (COMMUNITY DEVELOPMENT)/ADMIN	1,108,586	6,937		1,115,523	1,115,523	-	0.00%
CD-PLANNING	352,079	15,809		367,888	367,888	-	0.00%
CD-BUILDING	608,343			608,343	608,343	-	0.00%
CD-CODE & ANIMAL CONTROL	804,088	7,669		811,757	811,757	-	0.00%
CD-EMERGENCY SERVICES	91,111			91,111	91,111	-	0.00%
SUBTOTAL	2,964,207	30,415	-	2,994,622	2,994,622	-	0.00%
PUBLIC WORKS							
PW (PUBLIC WORKS)/ADMIN	456,767	28,290		485,057	485,057	-	0.00%
PW-DEVELOPMENT SERVICES	704,786	24,937		729,723	729,723	-	0.00%
PW-STREETS	182,895	28,707		211,602	211,602	-	0.00%
PW-LIGHTING & LANDSCAPING	532,084	13,000		545,084	545,084	-	0.00%
PW-ENGINEERING SERVICES	1,208,482	12,771		1,221,253	1,221,253	-	0.00%
SUBTOTAL	3,085,014	107,705	-	3,192,719	3,192,719	-	0.00%
GENERAL FUND GRAND TOTAL	35,947,599	1,863,778	35,281	37,846,658	37,846,658	-	0.00%

Recommended Budget Amendments:

Community Development has seen an increase of approximately \$140,000 in development related fees, primarily plan check fees. This department is requesting to increase the budget for temporary staffing (for plan check services) by \$80,000. As development increases, so does the demand for services. Revenues are designed to recover costs. Temporary staffing is the most expedient way to handle increased service but still have flexibly to decrease staffing when demand decreases.

An insurance payment for \$209,000 was moved from FY 2013/2014 to FY 2014/2015 per the auditor's recommendation (a timing issue). The savings from FY 2013/2014 was reserved in the fund balance (General Fund reserves) designated for this appropriation; accordingly, staff recommends a budget amendment to budget these funds in FY 2014-2015.

General Fund Balance and Reserves

At the City Council’s request, the City’s Investment Advisory Board (IAB) reviewed the City’s reserve policies. The IAB’s review included: Government Finance Officers Association recommendations, and the policies of other cities and cities with the highest bond ratings in the country. They also considered the City’s unique characteristics and concerns. During the last five monthly meetings, the IAB debated various reserve scenarios and drafted the attached comprehensive reserve policy for the Council’s consideration (Attachment 1).

Overall, the IAB recommends increasing the designated cash reserves (as identified in the chart below) from the current 54.25 percent of annual operating budget expenditures to 60 percent of annual operating budget expenditures. Further, they recommend reducing the current Emergency reserve category, increasing the Cash Flow reserve, and establishing two new designated reserve categories – Economic Stabilization and Federal/State/County “Take Away.” Overall, they recommend increasing the designated cash reserves by almost six percent. Because the current definition governing the use of Emergency Reserves is narrow and relates primarily to catastrophic disasters, the IAB recommended creating the two new categories to provide more flexibility when another economic downturn or state/federal takeaway occurs. An alternative to these categories would be to change the definition of “emergency” in the policy in order to allow more flexibility.

Included in the IAB’s draft policy is the guiding principle that current expenditures should only be funded with current revenues; and, one-time revenues should only be used for one-time expenditures. This is the “golden rule” of budgeting. While it is difficult to set minimum reserve levels, it is even more challenging to set maximum reserve levels. During the review of reserve scenarios the following summary of reserve philosophies, based on risk tolerance, were developed by the Finance Department (Attachment 2). Below is a summary of the City’s reserves by category based on current policy and proposed policy. The fund balances for year-end FY 2014/2015 (June 30, 2015) are based on estimates.

GENERAL FUND BALANCES BY CATEGORY					CURRENT RESERVE POLICY	IAB RECOMMENDED RESERVE POLICY
		YE 6/30/13	YE 6/30/14	7/1/2014	ESTIMATED YE 6/30/15	ESTIMATED YE 6/30/15
	NON-SPENDABLE	\$65,225,273	\$58,466,029	\$58,466,029	\$56,668,304	\$56,668,304
	RESERVE FOR OPEB OBLIGATION	\$1,523,401	\$1,523,401	\$1,523,401	\$1,523,401	\$1,523,401
	CARRYOVER OF CIP PROJECTS	\$0	\$1,507,429	\$0	\$0	\$0
	OTHER CARRYOVERS	\$1,013,533	\$356,438	\$0	\$0	\$0
	INSURANCE PREMIUM CARRYOVER	\$0	\$209,000	\$0	\$0	\$0
AREA OF REVIEW	RESERVE FOR EMERGENCIES	\$16,034,995	\$16,034,995	\$16,581,543	\$16,581,543	\$14,378,900
	RESERVE FOR CASH FLOW	\$2,836,820	\$2,836,820	\$2,875,781	\$2,875,781	\$3,594,700
	RESERVE FOR ECONOMIC STABILIZATION	\$0	\$0	\$0	\$0	\$3,235,300
	RESERVE FOR STATE/FEDERAL "TAKE AWAYS"	\$0	\$0	\$0	\$0	\$359,500
	UNASSIGNED	\$5,938,568	\$10,699,641	\$10,114,132	\$12,388,474	\$10,277,398
	Total	\$92,572,590	\$91,633,753	\$89,560,886	\$90,037,503	\$90,037,503

See Attachment 3 for detail of changes year to year.

Of final note, the City has \$10,277,398 to \$12,388,474 of Unassigned cash reserves that may be invested in new endeavors (the variance is generated by whether or not the current reserve policy is adjusted). These funds will also increase this fiscal year because the City will begin receiving payment of the former Redevelopment Agency General Fund loan (projected to be \$1.1 million this fiscal year).

Staff recommends that the Council discuss whether or not these Unassigned reserves should be saved, or designated for capital improvement or economic development investment. If capital improvement investments are considered, they should entail projects that improve the community and cannot be funded from other resources. If economic development investments are considered, the focus should be on projects that would generate recurring General Fund revenue.

ALTERNATIVES:

As this is a study session item, no alternatives are recommended.

Report prepared by: Rita Conrad, Finance Director

Report approved for submission by: Frank J. Spevacek, City Manager

- Attachments:
1. General Fund Reserve Policy
 2. General Fund Reserve Guidelines
 3. General Fund Reconciliation Balance

City of La Quinta

General Fund Reserve Policy

The Government Finance Officers Association (GFOA), the association that establishes best practices in the governmental finance profession, recommends a reserve equal to at least 17% (two months of normal operating expenditures). Each organization, depending upon their unique circumstances, needs to determine their reserve level. There is no guidance for “maximum” reserves. There will always be more needs and unanticipated events than there are resources. Governments must balance the need to be fiscally responsible with what is reasonable. Establishing reserves is essentially determining tolerance to risk and how much “insurance” is needed (or the City can afford) to address that tolerance level. The following recommendations attempt to address minimum requirements and tolerance for risk (note: the reserve for OPEB is not included as it will be transferred to a non-revocable trust account in the future).

In addition to the recommendations below, the Council may also reserve funds for specific itemized projects or purposes as they arise (for example, a set aside fund for a community center, branch library, new city hall, special one-time projects, etc.).

Guiding principles:

- In general, one-time revenues should not be utilized for on-going expenditures. One-time revenues should be put into reserves or appropriated for one-time expenditures.
- Reserves for capital improvements, equipment replacement, and infrastructure should be part of the on-going budget process. Based on depreciation, or other relevant criteria, contributions should be made annually (into a “revolving” fund) as part of the budget process toward replacement of equipment, buildings, infrastructure, etc.
- When authorizing the use of reserves, developing a plan to replenish those reserves should also be considered.
- It is important to remember when budgeting that as expenditures increase, so will reserve requirements (reserves are based on a percentage of expenditures).
- The reserve policy should be amended by resolution and require 4/5th approval of the Council.

Total Reserves:

Current: 54.25%

Recommended: 60%

Based on reserve levels of other cities and categorizing their levels as “high tolerance for risk”; “medium tolerance for risk”; and, “low tolerance for risk”, the City of La Quinta has been categorized as “low tolerance for risk” meaning that a higher level of reserves,

relative to other organizations, is desired. After discussing the issues relative to the City of La Quinta and also reviewing the policies of other cities, the recommendation is to increase overall reserves to 60% of normal operating expenditures in the previous year's adopted budget (excludes one-time capital costs or anomalies).

The reserve for emergencies has been adjusted downward so that the City may establish a new category for "economic stabilization." The reserve for emergencies is based on the circumstances in section 2.20.020 of the municipal code which do not allow flexibility for drastic swings in the economy, including state takeaways. Cash flow was slightly increased to a level more consistent with other policies reviewed. Each category is briefly discussed below:

Reserve for cash flow:

Current: 8.25%

Recommended: 10%

This reserve addresses liquidity. A reserve for cash flow is needed to address the imbalance of monthly income compared to monthly expenditures. Typically, expenditures are consistent month to month. However, the City's largest revenues (property tax, property tax in lieu of MVLF, and property tax in lieu of sales tax) are only made to the City in two annual installments.

Reserve for emergencies:

Current: 35% + \$4 million (approx. 46%)

Recommended: 40%

As used defined in the City's municipal code, the terms emergency or disaster mean:

"The actual or threatened existence of conditions of disaster or of extreme peril to the safety of persons and property within this city caused by such conditions as air pollution, fire, flood, storm, epidemic, riot, earthquake or other conditions, including conditions resulting from war or imminent threat of war but other than conditions resulting from a labor controversy, which conditions are or are likely to be beyond the control of the services, regular personnel, equipment and facilities of the city and which may require the combined forces of other political jurisdictions to combat."

Reserve for economic stabilization:

Current: 0%

Recommended: 9%

This reserve is for the purpose of stabilizing the delivery of city services during periods of operational budget deficits resulting from the following conditions: drastic and unanticipated economic downturns, or unanticipated spikes in operating costs. For example the Great Recession of 2009 resulted in dramatic drops in City revenues. Another example would be a sudden loss of TOT revenue in the event a

major hotel stops business. An example of an unanticipated spike in regular operating costs would be a sudden increase in public safety contract costs.

Use of this reserve would be in conjunction with budget planning and is intended to “bridge the gap” in the short term so that a deliberate thought out long-term strategy may be developed.

Reserve for Federal/State/County “Take Aways”:

Current: 0%

Recommended: 1%

This reserve is for the purpose of stabilizing the delivery of city services during periods of operational budget deficits resulting from revenue takeaways from the federal, state or county government. The loss of Redevelopment funds is an example of a situation where this reserve might be used.

Use of this reserve would be in conjunction with budget planning and is intended to “bridge the gap” in the short term so that a deliberate thought out long-term strategy may be developed.

DRAFT

GENERAL FUND RESERVES GUIDELINES

(PERCENTAGES ARE OF BUDGETED EXPENDITURES ASSUMING \$34.5 MILLION BUDGET-FY 12-13 BUDGET)

	CURRENT	CITIES WITH HIGH TOLERANCE FOR RISK	CITIES WITH MEDIUM TOLERANCE FOR RISK	CITIES WITH LOWER TOLERANCE FOR RISK	RECOMMENDATION
CASH FLOW	8.25% (\$2.8 million)	4% OR LOWER (\$1.38 million or less)	4.1% TO 8% (\$1.39 million to \$2.76 million)	8.1% OR HIGHER (\$2.77 million or higher)	10% (\$3.45 million)
EMERGENCY (AS DEFINED IN 2.20 OF MUNI CODE)	35% OF BUDGETED EXPENDITURES + \$4 MILLION (ROUGHLY EQUATES TO 46%). EMERGENCY AS DEFINED IN MUNICODE SECTION 2.20 (\$16 million)	20% OR LOWER (\$6.9 million or lower)	20.1% TO 35% (\$7 million to \$12.08 million)	35.1% OR HIGHER (\$12.09 million or higher)	40% (\$13.8 million)
STATE, FEDERAL OR COUNTY "TAKE AWAYS"	0% (\$0)				1% (\$ 350,000)
ECONOMIC STABILIZATION	0% (\$0)	5% OR LOWER (\$1.73 million or lower)	5.1% TO 10% (\$1.74 million to \$3.45 million)	10.1% OR HIGHER (\$3.46 million or higher)	9% (\$3.1 million)
TOTAL RESERVES (NOT INCLUDING OPEB)	54.25% (\$18.8 MILLION)	29% OR LOWER (\$10.1 MILLION OR LESS)	29.1% TO 53% (\$10.02 TO \$18.29 MILLION)	53.1% OR HIGHER (\$18.30 OR MORE)	60% (\$20.70 MILLION)
PROS		ALLOWS COUNCIL MORE FLEXIBILTY FOR ONE TIME PROJECTS THAT OCCUR DURING THE YEAR		GREATER PREPAREDNESS FOR OUT OF THE ORDINARY OCCURRENCES. LESS LIKELY NEED FOR SHORT TERM BORROWING.	
CONS		LESS PREPAREDNESS FOR OUT OF THE ORDINARY OCCURRENCES. POSSIBLE NEED FOR SHORT TERM BORROWING.		ALLOWS COUNCIL LESS FLEXIBILTY FOR ONE TIME PROJECTS THAT OCCUR DURING THE YEAR	
AUTHORITY	RESOLUTION	NO COUNCIL APPROVED POLICY	RESOLUTION	ORDINANCE	RESOLUTION W/ 4/5TH APPROVAL NEEDED

NOTE ON RECOMMENDATION: No correct answer. Based on history, it is far more likely an economic downturn or state take away could occur. Suggest creating new category of Economic Stabilization to give Council access to reserves for this purpose (not covered under emergency). Based on comparison to other cities, La Quinta levels are in the "low risk to tolerance" range. Increased Cash Flow since 8.25% is roughly only 1 months expenditures.

GENERAL FUND GUIDELINES FOR ON-GOING NEEDS					
	CURRENT	HIGHER RISK TOLERANCE	MEDIUM RISK TOLERANCE	LOWER RISK TOLERANCE	RECOMMENDATION
OPEB (RETIREE MEDICAL) FLAT \$	\$1.5 MILLION (100% OF ACTUARIAL)	NONE-PAY AS YOU GO	PAY AS YOU GO PLUS CONTRIBUTION	100% OF ACTUARIAL	100% OF ACTUARIAL MOVE TO IRREVOCABLE TRUST
VEHICLES	BASED ON DEPRECIATION	NONE-PAY AS YOU GO	PAY AS YOU GO PLUS CONTRIBUTION	FULL CONTRIBUTION + ADDITIONAL	FULL CONTRIBUTION + ADDITIONAL
INFRASTRUCTURE	5 YEAR CIP	NONE-PAY AS YOU GO	5 YEAR CIP	5 YEAR CIP WITH DEDICATED GF CONTRIBUTION	5 YEAR CIP WITH DEDICATED GF CONTRIBUTION
TECHNOLOGY	BASED ON DEPRECIATION	NONE-PAY AS YOU GO	PAY AS YOU GO PLUS CONTRIBUTION	MASTER TECHNOLOGY PLAN	MASTER TECHNOLOGY PLAN
FACILITES	BASED ON DEPRECIATION	NONE-PAY AS YOU GO	PAY AS YOU GO PLUS CONTRIBUTION	MASTER FACILITIES PLAN	MASTER FACILITIES PLAN
INSURANCE (NOT FOR SELF INSURED CITIES)	NEW THIS YEAR - INSURANCE FUND FOR PREMIUMS	NONE-PAY AS YOU GO	NONE-PAY AS YOU GO	INSURANCE FUND	INSURANCE FUND

THINGS TO REMEMBER:

*GENERAL FUND RESERVES ARE FOR ONE-TIME AND/OR UNANTICIPATED OCCURRENCES

*ON GOING REPLACEMENT PROGRAMS, RATHER THAN RESERVES, SHOULD BE **BUDGETED ANNUALLY** FOR INFRASTRUCTURE, EQUIPMENT, TECHNOLOGY AND FACILITIES

*ONGOING REVENUES SHOULD COVER ONGOING COSTS

GENERAL FUND BALANCE RECONCILIATION

YE 6/30/13	92,572,590
LESS: DOF ADJUSTMENT:	(6,402,450)
LESS: MISC CHANGES TO ADVANCES	(356,794)
PLUS: CHANGE IN CIP CARRYOVER	1,507,429
PLUS: CHANGE IN CARRYOVERS	(657,095)
PLUS: INSURANCE CARRYOVER	209,000
PLUS: REVENUE OVER EXPEND:	4,761,073
YE 6/30/14	91,633,753
REMOVE CIP CARRYOVER	(1,507,429)
REMOVE CARRYOVER	(356,438)
REMOVE INSURANCE CARRYOVER	(209,000)
INCREASE EMERGENCY RESERVES DUE TO PERCENTAGE BASED ON HIGHER NUMBER	546,548
REDUCE UNASSIGNED	(546,548)
INCREASE CASHFLOW RESERVES DUE TO PERCENTAGE BASED ON HIGHER NUMBER	38,961
REDUCE UNASSIGNED	(38,961)
7/1/2014	89,560,886
REDUCE NON-SPENDABLE FOR RPTTF REPAYMENT	(1,797,725)
INCREASE UNASSIGNED FOR DOF LESS 20%	1,438,180
ADD FY 2014-2015 REV TO EXP	836,162
ESTIMATED YE 6/30/15	90,037,503

