

**LODI CITY COUNCIL
SHIRTSLEEVE SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MAY 25, 2010**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, May 25, 2010, commencing at 7:04 a.m.

Present: Council Member Hansen, Council Member Johnson, Council Member Mounce, Mayor Pro Tempore Hitchcock, and Mayor Katzakian

Absent: None

Also Present: Interim City Manager Bartlam, City Attorney Schwabauer, and Assistant City Clerk Robison

B. Topic(s)

B-1 Continue to Receive and Review the Draft Fiscal Year 2010/11 Financial Plan and Budget (CM)

Interim City Manager Rad Bartlam provided a brief introduction to the Fiscal Year 2010/11 budget department presentations.

Internal Services / Non-Departmental

Deputy City Manager Jordan Ayers provided a presentation regarding Internal Services and Non-Departmental budgets. Specific topics of discussion included an overview of the current and upcoming year departmental budget, changes in the budget, General Fund ratio, funded and unfunded positions, service adjustments, accomplishments, and emphasis for next fiscal year.

In response to Council Member Hansen, Mr. Ayers stated that the pay station usage varies but is relatively steady each month. Information regarding the pay stations is posted on the City's website, displayed at the Finance Department, and was mailed with utility bills. There has been only a minor reduction in the lines at Finance as a majority of the customers who come in need specific services other than making a payment.

In response to Council Member Mounce, Mr. Ayers stated that the Finance Department is managing reasonably well, despite its number of vacant positions.

In response to Council Member Hansen, Mr. Ayers stated that during training recently he learned that public agencies should have a formal banking contract that defines pricing and services, which could result in a savings, and staff is currently in negotiations with Farmers & Merchants Bank. A formal contract will be brought back to Council later this fall.

Discussion ensued amongst Mayor Pro Tempore Hitchcock, Council Member Mounce, and Mr. Ayers regarding authorized positions versus funded positions and the need to accurately reflect which positions are filled and which are not.

Council Member Mounce pointed out that the transfers in and out of the non-departmental budget were handled differently this year than in years past. Mayor Pro Tempore Hitchcock added that the accounting change to the debt service makes it appear as if it were not being reduced. Mr. Ayers stated that for auditing purposes much of the transfers are within the same reporting entity and the net impact is zero. Mr. Ayers stated he would look into why the line item was changed from the previous year.

City Clerk

Assistant City Clerk Jennifer Robison provided a presentation regarding the City Clerk budget. Specific topics of discussion included an overview of the current and upcoming year departmental budget, changes in the budget, General Fund ratio, funded and unfunded positions, service adjustments, accomplishments and emphasis for next fiscal year.

City Attorney

City Attorney Schwabauer provided a presentation regarding the City Attorney budget. Specific topics of discussion included an overview of the current and upcoming year departmental budget, changes in the budget, General Fund ratio, funded and unfunded positions, service adjustments, accomplishments and emphasis for next fiscal year.

In response to Mayor Katakian, Mr. Schwabauer stated the City could receive its wastewater permit in six months or more, depending on how quickly the State moves; however, because this is already three years into the process, it would be time to renew the permit shortly thereafter. Mr. Schwabauer responded that future requirements may include more stringent solids handling and lining the ponds, both of which have a significant potential for expense.

City Manager

Interim City Manager Rad Bartlam provided a presentation regarding the City Manager budget. Specific topics of discussion included an overview of the current and upcoming year departmental budget, changes in the budget, General Fund ratio, funded and unfunded positions, service adjustments, accomplishments and emphasis for next fiscal year.

In response to Council Member Hansen, Mr. Bartlam stated that only the Fire labor group has yet to vote on employee concessions, which it will do a week from Thursday.

Council Member Mounce stated there needs to be a better method of educating the business community about the Enterprise Zone and the tax benefits they can receive and suggested staff research the possibility of an Enterprise Zone fee to recapture money.

In response to Council Member Johnson, Council Member Mounce stated she has worked closely with members of the Enterprise Zone and their efforts have greatly improved over the last 15 years. The challenge has been convincing business owners of the benefits of participating in the Enterprise Zone. The City of Stockton's recent letter to business owners generated confusion and questions, which resulted in getting more businesses involved.

Communications Specialist Jeff Hood added that Stockton's letter, which was sent to all businesses in the Enterprise Zone, included an invoice to owners to fund their share of the Enterprise Zone management. As a result of the confusion, the invoices were ultimately rescinded. Lodi has several hundred vouchers and more businesses are coming on line. Mr. Hood pointed out that it really takes businesses talking to each other regarding how benefits are obtained and further stated that the tough economy is making it difficult for businesses to earn profits to receive their points.

In response to Council Member Hansen and Mayor Pro Tempore Hitchcock, Mr. Bartlam stated that a presentation was given on the wayfarer signage program, there was consensus on direction and concept for funding the design, and that staff will follow up on the process.

In response to Mayor Pro Tempore Hitchcock, Mr. Ayers stated that departments made every effort to come in at their numbers, but in some cases half of the one-time money from the Lodi Energy Center will be used to back fill one-time operations.

Mr. Ayers provided a PowerPoint presentation regarding the proposed general fund reserve policy. Specific topics of information included a description and reason to have a general fund reserve policy, whether or not it is a requirement, methods for calculating levels, elements of a policy, what other cities are doing, current policy, proposed policy, policy versus Fiscal Year 2010/11, and Governmental Accounting Standards Board 54 considerations.

In response to Mayor Pro Tempore Hitchcock, Mr. Ayers stated that catastrophic is defined in the Lodi Municipal Code, the City would have to declare an emergency, and it could then tap into that reserve.

Mr. Bartlam added that an emergency tends to be a natural disaster (i.e. earthquake, flood, fire, etc.) as opposed to failure of a piece of equipment.

Council Member Mounce questioned if there would be any flexibility in the policy that would allow an emergency to be declared for other types of disasters, such as a collapse of five miles of sewer line.

Mr. Bartlam stated that this would be a Council policy and it would have discretion on how to define and fund it. Using the example of the sewer line collapse, the money to repair the system would not come from the general fund, but from the wastewater utility. The catastrophic reserve would not be a budgetary reserve, and he stated the City would most likely tap into the proposed economic reserve first.

In response to Mayor Pro Tempore Hitchcock, Mr. Ayers stated that many cities have reduced their reserves due to lack of revenue stream, but they have not discarded their policies.

In response to Council Member Hansen, Mr. Ayers stated that the goal is to fully fund the catastrophic reserve in Fiscal Year 2010/11 and partially fund the economic reserve. In Fiscal Year 2011/12, staff will make a recommendation to either further fund or reduce the economic reserve.

Bob Takeuchi, Chairperson of the Lodi Budget/Finance Committee, stated that the Committee reviewed the policy, which was presented by former City Manager Blair King, and accepted it with few minor revisions. He confirmed that a majority of the Committee supported funding the catastrophic reserve first and then focusing on the economic reserve, as was recommended by Mr. King.

Mr. Bartlam stated that Council will be asked to adopt the budget at its regular meeting of June 2, which would also include approval of the general fund reserve policy.

C. Comments by Public on Non-Agenda Items - None

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:19 a.m.

ATTEST:

Jennifer M. Robison
Assistant City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Continue to Receive and Review the Draft Fiscal Year 2010/11 Financial Plan and Budget

MEETING DATE: May 25, 2010

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: Continue to receive and review the draft Fiscal Year 2010/11 Financial Plan and Budget.

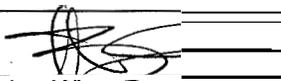
BACKGROUND INFORMATION: The review of the draft 2010/11 budget will continue. On May 5, 2010, the City Council received a presentation of the major components of the Fiscal Year 2010/2011 budget. At the May 18th Shirtsleeve Session and May 19th Council meeting, the City Council began to receive departmental budget presentations. Departmental presentations will continue today. City Council Members were provided copies of the 2010/11 draft budget and are encouraged to bring the budget document to the meeting.

Staff will also be making a presentation on the attached proposed General Fund Reserve policy. Staff developed the proposed policy with significant input from the Budget and Finance Committee. A member of the Committee is also available today to address any Council questions.

FISCAL IMPACT: The draft 2010-11 budget provides an expenditure plan for all funds. The all funds budget is \$179,333,640. The General Fund Budget is \$41,321,750.


Jordan Ayers
Deputy City Manager

APPROVED:


Rad Bartlam, Interim City Manager

City of Lodi

General Fund Reserve Policy

Purpose of Reserve Policy

Adequate designations of reserves---funds set aside for various legitimate purposes---are critical to the successful and stable, short- and long-term operation of the City of Lodi. Adequate reserves in the General Fund ensure that the City is able to respond to emergencies and continue providing services to the citizens of Lodi. Adequate reserves ensure that the City will have sufficient funding available to meet its operating, capital and debt service obligations.

Pursuant to Statement No. 54 of the Governmental Accounting Standards Board (GASB) – Fund Balance Reporting and Governmental Fund Type Definitions, unrestricted fund balance is composed of funds that may be classified as committed, assigned or unassigned. Committed fund balance represents those funds that are constrained by a limitation imposed by the governing body of a government upon itself as to the use of those funds. Assigned fund balance represents the City Council's intention to use funds for a specific purpose. Unassigned fund balance represents the remainder of fund balance after accounting for all reserved amounts. Provisions of GASB Statement No. 54 are effective for reporting periods beginning after June 15, 2010.

Beginning with the budget for Fiscal Year 2010/11, the following General Fund Reserves shall be funded, as funding is available.

Committed Fund Balance

General Fund Reserve – Catastrophic Reserve

- To maintain the ability of the City to meet operational expenses during times of declared emergency or major catastrophe, the City shall maintain a committed General Fund balance of a minimum of 8% of annual General Fund revenues. It is recognized that during a time of emergency, the City will need to expend more resources than normal operations dictate to meet the community's needs. In addition to an increased level of expenditure, the tax base of the City may be impaired after a major catastrophic event. This reserve shall be exclusive of all other reserves. This reserve may only be drawn upon pursuant to an emergency as declared under the Lodi Municipal Code.
- If the General Fund – Catastrophic Reserve amount falls below 5% of annual revenue, the City Manager shall prepare a plan within three months of approval of the Comprehensive Annual Financial Report (CAFR), commencing with the CAFR for FY 2009/10, to restore the 5% level within 12 months and the 8% level within 24 months.
- This reserve is not intended for normal unanticipated expenditures and shall be funded before all other committed General Fund reserves.

General Fund Reserve – Economic Reserve

- To maintain the City's economic viability and to meet seasonal cash flow shortfalls, the City shall maintain a committed General Fund Reserve – Economic Reserve balance of a minimum of 8% of annual General Fund revenues. Although 8% is the minimum, because this reserve is intended to levelize economic cycles from year to year, the reserve should have a higher amount to cushion the cyclical effects of the economy. This reserve shall be exclusive of all other reserves. Funding may only be disbursed based upon a resolution of the City Council.
- Funding of the General Fund Reserve – Economic Reserve will begin in the fiscal year following full funding of the General Fund Reserve – Catastrophic Reserve. Provisions below regarding action required if the General Fund Reserve – Economic Reserve falls below 5% of General Fund revenues shall only apply after the reserve has been funded at the minimum 8% level.
- Once fully funded, if the General Fund Reserve – Economic Reserve falls below 5% of annual revenue, the City Manager shall prepare a plan within three months of approval of the Comprehensive Annual Financial Report, commencing with the CAFR for FY 2009/10, to restore the 5% level within 24 months and 8% within 48 months.
- Once fully funded, in no case shall the General Fund Reserve - Economic Reserve fall below 5% of annual General Fund revenue for greater than a continuous 24-month period.

Assigned Fund Balance

Once Committed Reserves are fully funded, the City Council may establish Assigned Reserves for designated purposes. Assigned Reserves reflect Council's intent as to the use of funds. Once assigned, funds may only be released by resolution of the City Council.

General Fund Reserve Policy

City Council Shirtsleeve

May 25, 2010



What is a Reserve Policy?

- Establishes a level of fund balance to be maintained for specific purposes
- Adopted by the governing body

Why have a Reserve Policy?

- Mitigates exposure to catastrophic events/natural disasters
- Reduces budgetary impact of bad economic times
- Mitigates effect of State actions that affect our revenue streams
- Demonstrates creditworthiness and ensures solvency

Is a Reserve Policy required?

No, but it reflects positively on the creditworthiness and prudent management of the City

Methods for calculating levels

- No set criteria
- Flat dollar amount
- Percentage of expenditures (or revenue)

Elements of a Policy

- Appropriate level of unrestricted fund balance to be maintained in reserve
- Timeline allowed to fully fund reserve amount
- Circumstances under which amount can be “spent down”
- Policy for replenishing deficiencies

What others are doing

- Lathrop
 - 25% , informal policy
- Stockton
 - Council-adopted policy
 - 5% catastrophic reserve
 - 5% economic reserve
- February 2009 survey of California cities
 - 5% to 100%
 - 27% average

Current Policy

City should maintain fund balances of at least 15% of operating expenditures

- As stated in 2005/06 budget policies

Proposed Policy

Catastrophic Reserve

- 8% of General Fund revenues
- Fund fully in 2010/11 budget
- Accessible only under Council-declared emergency
- If below 5%, City Manager brings plan to replenish to 5% within 12 months and to 8% within 24 months

Proposed Policy

Economic Reserve

- Minimum of 8% of General Fund revenue
- Begin funding in FY following full funding of Catastrophic Reserve
- “Spend Down” by resolution of Council
- Once fully funded, if level falls below 5%, City Manager bring forward plan to replenish to 5% within 24 months; 8% within 48 months

Proposed Policy

Assigned Fund Balance

- Once Catastrophic and Economic Reserves are fully funded
- Council intent for use of Assigned funds
- Created and released by resolution

Policy vs. FY 2010/11

- \$3,831,962 balance to allocate
- \$40,136,850 base revenues
 - Total less one-time
- Catastrophic Reserve – 8%
 - \$3,210,948
 - Fully funded
- Economic Reserve – minimum of 8%
 - \$621,014
 - Partially funded

GASB 54 Considerations

- GASB Statement 54 standardized naming conventions for fund balances
 - Nonspendable Fund Balance
 - Restricted Fund Balance
 - Committed Fund Balance
 - Assigned Fund Balance
 - Unassigned Fund Balance

GASB 54 Considerations

- Effective for FY 2010/11 CAFR
- Proposed policy addresses Committed Fund Balance only
- Proposed policy conforms to GASB 54 guidance