



**CITY OF SOUTH PASADENA
FINANCE COMMISSION
REGULAR MEETING AGENDA**

Commissioners to participate via ZOOM

Meeting ID: 932 5969 8172

Password: 807590

March 25, 2021, at 6:30 pm.

CALL TO ORDER:	Commission Chair Elsner
ROLL CALL:	Chair Elsner, Vice Chair Choi, Commissioners Findley, Tao and Wood, and City Treasurer Pia
COUNCIL LIAISON:	Council Member, Jack Donovan
STAFF PRESENT:	Interim Assistant City Manager, Elaine Aguilar

NOTICE OF PUBLIC PARTICIPATION AND ACCESSIBILITY

Pursuant to Section 3 of Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, the Special Meeting of the Finance Commission for **March 25, 2021** will be conducted remotely and held by video conference, beginning at 6:30 p.m. The Meeting will be broadcast live on the City's local cable channel and the City's website at:

(www.southpasadenaca.gov/financecommission).

Please be advised that pursuant to the Executive Order, and to ensure the health and safety of the public by limiting human contact that could spread the COVID-19 virus, the Council Chambers will not be open for the meeting. Commissioners will be participating remotely and will not be physically present in the Council Chambers.

If you would like to comment on an agenda item, or make a general public comment, members of the public may submit their comments in writing for Commission consideration, by emailing them to: fcpubliccomment@southpasadenaca.gov.

Public Comments must be received by 6 p.m., March 24, 2021 to ensure adequate time to compile and post. Public Comment portion of the email is limited to 150 words. Please make sure to indicate: 1) your name; 2) what agenda item you are submitting public comment on, or if it is a general public comment; and 3) clearly state if you wish for your comment to be read.

PUBLIC COMMENT

Public Comments received by 6 p.m. March 24, 2021 will be read during this time, limited to 150 words. Public comments received will be posted to the website and entered into the record of the meeting.

ACTION/DISCUSSION

1. Update Regarding City Financial Policy
2. Finance Dept. Policy and Procedures Update, Enhanced Internal Controls
3. Discussion Regarding Budget & CIP Fiscal Year 2020-2021 and 2021-2022
4. Financial Sustainability Plan Update
5. Refinancing of City’s Water Bonds – *awaiting information from the City’s Bond Financial Advisor*
6. Report from the Finance Ad Hoc Committee – *Next Meeting March 31 or April 1, 2021*
7. Approval of Minutes from the March 4, 2021 Special Meeting Minutes

ADJOURNMENT

FUTURE FINANCE COMMISSION MEETINGS


April 29, 2021

Virtual Meeting

PUBLIC ACCESS TO AGENDA DOCUMENTS

Prior to meetings, agenda related documents are available for public inspection at, City Hall, 1414 Mission Street, South Pasadena, CA 91030. The complete agenda packet may also be viewed on the City’s website at: www.southpasadenaca.gov/financecommission


ACCOMMODATIONS



The City of South Pasadena wishes to make all of its public meetings accessible to the public. Meeting facilities are accessible to persons with disabilities. If special assistance is needed to participate in this meeting, please contact the City Clerk's Division at (626) 403-7230. Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities. Hearing assistive devices are available in the Council Chamber. Notification at least 48 hours prior to the meeting will assist staff in assuring that reasonable arrangements can be made to provide accessibility to the meeting (28 CFR 35.102-35.104 ADA Title II).

I declare under penalty of perjury that I posted this notice of agenda on the bulletin board in the courtyard of City Hall at 1414 Mission Street, South Pasadena, CA 91030, and on the City’s website as required by law.

3/22/2021
Date





Finance Commission Agenda Report

DATE: March 25, 2021

FROM: Elaine Aguilar, Interim Assistant City Manager

SUBJECT: **Update Regarding – City Financial Policies
(This Staff Report is for Items #1 & 2 on the agenda)**

Recommendation

It is recommended that the Finance Commission receive this update, and provide preliminary direction, if desired. This matter is also being reviewed by the Finance Ad Hoc Committee and will return to the Commission at a later date.

Discussion/Analysis

The City has embarked on the process of updating its financial policies and finance department procedures. Significant progress has not been made due to the backlog of other important finance department projects such as completion of the Fiscal Year 2019 CAFR, completion of the Fiscal Year 2021 Budget, and the preparation of the Fiscal Year 2022 Budget, and the Fiscal Year 2020 CAFR. Preparing two audits and two budgets in a single fiscal year takes a significant toll on staffing resources, and when combined with the impacts of the COVID pandemic on department operations, the toll is increased.

Behind the scenes improvements have been accomplished and continue to be achieved, in the current fiscal year, including improved financial reporting and stronger controls over accounts payable and accounts receivables. But these improvements won't be visible, until the fiscal year concludes and the auditors audit FY 2021. Staff acknowledges that stronger, more contemporary written policies and procedures should also be developed. It is going to take some time to complete a total top to bottom update (and in some instances creating new policies, where none currently exist) of all of the city's finance department procedures. The Ad Hoc Committee has just begun to broach the subject and will be continuing their work in this area.

The first suggested policy for review is the city's overall financial policy that is included in the City's Budget document and adopted each time the City's budget is adopted. Staff recommends this policy be the first to be considered, because it "sets the tone" for all other policies and provides high level guidance regarding important financial matters. You will note that the Financial Policy is not a detailed "procedures manual", instead it provides high level guidance and sets standards, goals and timelines. The actual implementation of the Financial Policy should be more detailed procedures at the department level.

A copy of the City's current Financial Policy as included in the Proposed FY 2021 Budget is attached. Staff has also attached a copy of the Financial Policy for the City of Irvine, a large city, and the City of San Marino, a city more similar to South Pasadena. (You will note that San Marino has a Resolution, and a policy update.)

This item is on the Commission's agenda to allow time to develop an updated policy for the City Council as part of the Fiscal Year 2022 Budget process. It is not envisioned that an updated policy will be created in a single meeting, but will take time over the next two months, working with the Finance Ad Hoc Commission. However, initial thoughts to provide insight to the Ad Hoc Committee would be helpful, prior to the policy returning to the Commission. It should also be mentioned that it may take more than one budget cycle to finally create the policy that addresses all concerns. It is important to take the first step to improve what can be improved between now and June, when the budget is presented to the Commission, the City Council and the public.

Background

The staff report that accompanied the FY 2021 Proposed Budget to the City Council indicated the following, "Staff acknowledges that sections, such as the "Financial Policies" should be revamped to conform to today's professional standards. Given that there is only one quarter left in this fiscal year, staff will be working with the Finance Commission and the Finance Ad Hoc Committee to prepare updated Financial Policies to be included in the FY 2021/2022 Annual Budget. "

Fiscal Impact

This item allows the Finance Commission to comment on the development of the Financial Policy that goes into the annual budget each year. There is no direct fiscal impact with revising and developing an updated policy, other than staff time.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

Financial Policy Discussion

March 25, 2021

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Attachments

1. City of South Pasadena Financial Policy
2. City of Irvine Financial Policy
3. City of San Marino Financial Policy

FY 2020/2021 Financial Policies

Note: This Financial Policy has not been significantly altered from previous fiscal years. It is acknowledged that these policies should be updated and strengthened to achieve maximum compliance with governmental budgeting guidelines, and to provide for strengthened controls, and additional transparency. These policies will be revised and updated upon presentation in the FY 2021/2022 Budget.

1. BALANCED BUDGET

We will strive to maintain a balanced operating budget for all governmental funds (all funds except the enterprise funds), with total on-going revenues equal to or greater than total on-going expenditure, so that at year end all these funds have a positive fund balance and the General Fund balance is maintained.

The Adopted FY 2020/2021 Budget includes a balanced operating budget for some of the funds. The City's General Fund is balanced.

Exceptions to this policy include:

Fund 103 – Insurance Fund

Fund 201 – MTA Pedestrian Improvement Fund

Fund 211 – CTC Traffic Improvement

Fund 220 – Business Improvement Tax

Fund 226 – Mission Meridian Public Garage

Fund 232 – County Park Bond

Fund 238 – MSRC Grant

Fund 239 – Measure W

Fund 241 – Measure H

Fund 242 – Prop C Exchange

Fund 245 – Bike and Pedestrian Paths

Fund 248 – BTA Grants

Fund 249 – Golden Streets Grant

Fund 260 – CDBG

Fund 274 – Homeland Security Grant Fund 277 – HSIP Grant

Fund 310 – Sewer Capital Projects

Fund 506 – SRF Loan

The majority of these fund deficits will be resolved upon completion of the FY 2019/2020 Audit, or upon invoicing of grant funds. Staff will resolve to promptly invoice granting agencies.

The MTA Pedestrian Improvements Fund deficit is due to expenses that remain unreimbursed pending the resolution of funding for the Hook Ramp Rogan project. The Mission Meridian Garage Fund does not have a significant revenue source at present, so it will continue to operate at a deficit. The operational deficits in the County Park Bond Fund, BTA Grants Fund, Golden Streets Grant Fund, MSRC Grant, Homeland Security Grant Fund, Prop C Exchange Fund, and HSIP Grant, result from expenses that will be reimbursed by grants. The deficit in the Business Improvement Tax is due to decreased revenues resulting from pandemic related business losses. The deficit in Measure W Fund is due to the lag in receipt of revenues from the measure. The

deficit in the Sewer Capital Projects fund is the result of a loan, with the loan proceeds included in the Sewer Fund (210).

2. APPROPRIATIONS AND BUDGETARY CONTROL

The City Council holds public hearings and adopts the City's annual budget and may modify appropriations with majority approval. Increases in appropriations at the fund level during the year must be submitted by the City's departments for City Council review and approval. The legal level of expenditures is controlled at the fund level, and appropriations lapse at the end of each fiscal year unless encumbered for re-appropriation by the City Council in the following fiscal year. Department heads may, without Council approval, amend individual line items within any fund in the maintenance and operations portions of the budget without increasing total appropriations for that division. The City Manager may, without Council approval, amend individual line items within any fund, and between divisions and programs, in the personnel costs, maintenance and operations, capital outlay and capital projects portions of the budget without increasing total appropriations for that fund.

This policy has been met.

Staff will implement at least quarterly financial reports to the City Council beginning with the FY 2021/2020 Budget. In the meantime, staff will present a final quarterly update for the current fiscal year at the June 2021 City Council meeting.

3. ENTERPRISE FUND

We will require that our water, sewer, and golf course funds be self-supporting.

The sewer fund was recognized as an enterprise fund starting in FY 2009/10, with the requirement of self-supporting funding. Water and sewer rate increases will assure that revenues exceed operating expenditures, including debt service. Budgeted water capital projects will be paid from a \$37.8 million 2016 Water Bond issuance. Bond debt service will be paid out of water revenues. Sewer revenues along with a revolving loan from the State will pay for sewer capital improvements.

The Water Fund will maintain a reserve equal to 30% of revenues. This policy has been met.

4. GENERAL FUND RESERVE

We will strive to attain a General Fund undesignated fund balance equal to 30% of General Fund revenues at year end.

This policy has been met and exceeded.

5. GENERAL FUND DESIGNATED RESERVE

The total designated reserves have been established for FY 2020/2021 is as follows:

- Arroyo Golf Course; \$600,000

- CalTrans Vacant Lot Purchases; \$392,000
- Legal Reserve; \$500,000
- Maint. Yard/ Community Center; \$267,067
- Library Expansion; \$200,000
- Renewable Energy Source Reserve; \$700,000
- Retiree Pension Reserve; \$500,000
- Retiree Medical Reserve; \$500,000
- Tree Replacement; \$50,000
- Stormwater; \$600,000
- Library Park Drainage Reserve; \$147,000
- Financial Sustainability Reserve; \$900,000
- Slater Reimbursement Reserve; \$345,876
- Vehicle Replacement Reserve \$100,000
- SR-100 Interchange Project \$1,410,000

Staff will be seeking the City Council's direction regarding the one-time cell tower revenues in the amount of \$4,374,439 which is currently in undesignated reserves.

6. INFRASTRUCTURE

We will maintain a long-range fiscal perspective through the use of a Capital Improvement Program to maintain the quality of City infrastructure, including streets, sidewalks, sewers, drains, lighting, buildings, parks, and trees.

Beginning FY 2013/14, the City has been committing a minimum of \$2,000,000 per year towards street improvements. This year the City did not commit to this funding, to have the most flexibility in maintaining a balanced budget throughout the year.

7. ACCOUNTING AND REPORTING STANDARDS

We will comply with all requirements of generally accepted accounting principles. We will publish a Comprehensive Annual Financial Report (CAFR) in compliance with generally accepted accounting principles, prepared in coordination with our independent auditors, during the first quarter of each calendar year. The CAFR, along with the Auditor's report on internal controls and compliance, will be presented to the City Council at a public meeting,

The City Council has approved the FY 2018/2019 CAFR. The FY 2019/2020 CAFR is currently being prepared. Staff anticipates presenting the FY 2019/2020 CAFR at the July 1, 2021 City Council meeting, or as soon as possible.

8. RISK MANAGEMENT

We will identify and quantify all areas of financial and operating risk, and prepare contingencies for those risks, including legal liabilities, infrastructure maintenance, emergency response, and contract and employee obligations. We will work with our Retirement system and Insurance Pool to seek full coverage of actuarially projected needs.

Current insurance costs are fully funded with a retention of \$100,000 for general liability, and \$125,000 for workers' compensation. Funding on a pay-as-you-go basis for leave liabilities, claims and judgments, and retiree health insurance costs remains the City's practice. In accordance with GASB 45, a third-party actuarial valuation of the City's liability for annual retiree medical costs has been completed every two years since FY 2008/09. An updated actuarial valuation is being prepared for the FY 2019/2020 Audit.

9. DEBT AND INVESTMENTS

We will consider the use of debt when the cost of debt is lower than the City's investment return, and when operating revenues are available to pay the debt. We will maximize the investment return on City Cash balances within the higher concerns of safety and liquidity.

In FY 2020/2021 staff will continue to contract with financial advisory services to evaluate various options to leverage existing revenue streams.

10. CONTROL OF FINANCIAL ASSETS

All financial assets will be under the direct authority of the City Treasurer and Finance Director.

This policy has been met.

11. FINANCIAL MANAGEMENT

We will seek to realize the maximum use of all tax dollars to public benefit.

This policy has been met through the review, and City Council approval of the annual budget.

FINANCIAL POLICIES

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FISCAL POLICY STATEMENT

To foster a culture of long-term fiscal sustainability, the Irvine City Council has adopted a number of fiscal policies. These policies set a framework to ensure a balanced budget, maintain healthy reserves, appropriately fund the City's infrastructure needs, and set fees and charges within permitted subsidy thresholds.

The Government Finance Officers Association (GFOA) recommends that governments formally adopt financial policies, place the policies in the same sections of the budget document (with original and revision dates shown on the individual policies), and monitor, review, and update in a systematic way.

The following policies are included in this document:

Policy	Original Date of Adoption	Date of Revision
Long-term Financial Planning	June 11, 2019	
Biennial Budget	June 11, 2019	
Capital Improvement Program (CIP) Budget	June 11, 2019	
Balanced Budget	June 11, 2019	
General Fund Contingency Reserves	June 11, 2019	
Infrastructure Funding	June 11, 2019	
Interfund Transfers and Loans	June 11, 2019	
User Fees and Cost Recovery	June 11, 2019	
Cost Allocation for Administrative and Support Functions	June 11, 2019	
Grants and Federal Funds	June 11, 2019	
Risk Management	June 11, 2019	
Investment Policy	October 9, 2018	June 11, 2019
Debt Management Policy	June 11, 2019	

A. Long-Term Financial Planning

The City of Irvine is committed to long-term comprehensive financial planning.

- The City prepares and publicly presents, during the budget development process, a detailed five-year forecast that includes an analysis of key revenues and expenditures, and proposed measures to address any projected gaps.
- The forecast is prepared for the General Fund, Great Park funds, Capital funds, and other key revenues sources. The first two years of the forecast form the foundation for the City's two-year budget.

B. Biennial Budget

The City adopts a biennial budget, developed in the context of the five-year financial plan. The following are key elements of the City's biennial budget:

- The City's Fiscal Year starts on July 1st and ends on June 30th.
- Budgetary appropriations are made by the City Council, through budget adoption, for two full fiscal years, broken out into one-year increments.
- The City Manager submits the Proposed Budget to the City Council at least 30 days prior to the beginning of each biennial budget cycle, i.e. by June 1st or earlier.
- The biennial budget is adopted by the City Council on or before June 30th following a public meeting where constituents are given an opportunity to comment on the Proposed Budget.
- During the budget review at the end of the first fiscal year (the Mid-cycle), staff presents to the City Council any necessary adjustments to the second-year budget. The adjustments are based on additional funding reviewing, or major changes in revenues or expenditures in excess of two percent of General Fund appropriations.
- During the fiscal year, any necessary budget adjustments that cannot wait for the Mid-Cycle review or the subsequent budget process, may occur at any City Council meeting, at the request of staff. The City Council approves any revisions that increases the total budgeted expenditures or revenues of any department and fund, and any changes to permanent and full-time positions. The City Manager is authorized to make other budgetary adjustments up to \$100,000, consistent with the City's budget guidelines for contract budgeting.
- In instances where specific activities/purchases are authorized by the City Council in a certain fiscal year and remain incomplete and/or unexpended, revenues and/or fund balance may be carried forward, at City Council's discretion, into the next fiscal year to support such activities/purchases.
- At the end of the first year of the two-year budget, departments with savings will have the opportunity to carry over unspent discretionary funds to the second year, barring any significant unforeseen revenue shortfalls or unanticipated demands. Similarly, departments that overspend in the first year would effectively see their second-year allocations reduced by the amount of overspending.

- At the end of the second year, departments with savings will have the opportunity to retain 50 percent of the unused funds for capital or other one-time needs, barring any significant unforeseen revenue shortfalls or unanticipated demands, and subject to the City Council approval. The other 50 percent will be returned to General Fund Reserves.

C. Capital Improvement Program (CIP) Budget

- In conjunction with the biennial budget process, the City develops a five-year CIP. CIP projects are generally valued at over \$50,000 and have an estimated useful life in excess of two years. CIP includes the following categories:
 - Streets and Mobility Improvements;
 - Facility Improvements;
 - Landscape Improvements; and
 - Great Park Improvements.
- The CIP budget is driven by the City's goal to appropriately maintain and care for the City's infrastructure, in order to protect the City's capital investment and to minimize future maintenance and replacement costs.
- The CIP budget includes sources of funds in compliance with the Infrastructure Funding policy, previously appropriated funding as well as future five-year funding needs, and estimated future operating costs or savings associated with each capital project.
- Similar to the operating budget, funding for the first two years of the CIP budget is approved during the biennial budget process.

D. Balanced Budget

The City Manager presents, and the City Council adopts, a balanced biennial budget, containing estimated revenues equal to appropriated expenditures.

- The budget is balanced at the individual fund level. The estimated revenue sources must be sufficient to cover proposed uses.
- Ongoing operations are funded by recurring revenues.
- City policies on reserve requirements for specific funds are adhered to in the budget.
- If shortfalls are projected after the budget adoption, during quarterly financial reviews, the City Manager will present a plan to address such shortfalls with sustainable measures in order to achieve a balanced budget by fiscal year-end.
- Non-recurring revenues or one-time funding may be used to balance the budget during economic downturns, or as a result of unforeseen events.

E. General Fund Contingency Reserves

The City shall seek to maintain a General Fund Contingency Reserve at a level between 20 to 25 percent of the General Fund adopted appropriations.

- A 25 percent reserve level is desired, but will only be achieved when practical.
- The Contingency Reserve may be used to help mitigate the effects of unanticipated situations such as natural disasters and severe, unforeseen events.
- During the fiscal year, the Contingency Reserve may also be used to meet the City's funds liquidity needs.

FINANCIAL POLICIES

- The City Council may authorize the use of reserves to address an unforeseen emergency, or to offset revenue decreases due to a significant economic downturn in order to maintain strategic essential services. At the time this authorization is given, a plan shall also be approved to replenish the reserves within three fiscal years.

F. Infrastructure Funding

The City shall operate and maintain its physical assets (including but not limited to Building and Facilities, Streets and Sidewalks, Equipment and Vehicles, and Technology) in a manner that protects the public investment and ensures achievement of their maximum useful life.

- An assessment of each category of physical asset will be conducted approximately every five years, to assess the asset's remaining life and identify repairs or replacement needs for the next five years with the goal of sustaining existing infrastructure in the most cost effective manner.
- The City shall establish a Repair and Replacement fund for each infrastructure type.

Building and Facilities:

The City will use funds that are restricted for the specific assets prior to unrestricted funds, such as the Infrastructure and Rehabilitation Fund and the Asset Management Plan Fund. The funds that are available for the repairs and maintenance for Buildings and Facilities include but not limited to:

- Great Park funds
- Capital Improvement Project funds
- Development Impact Fee funds
- Quimby park funds
- Grant funds
- Infrastructure and Rehabilitation Fund
 - The Infrastructure and Rehabilitation Fund was created to provide for the accumulation and distribution of funds for various rehabilitation projects. Sources for this fund is the investment income from the Asset Management Plan Fund.
- Asset Management Plan (AMP) Fund
 - Provided there are sufficient funds, the AMP Fund can be used for repairs and replacement of City facilities only when no other source of funding is available.
 - Future contributions to the fund shall be made from unanticipated one-time sources with City Council approval, and as necessary through annual budget appropriations from the General Fund and other legally available funding sources.

Streets and Sidewalks:

Repairs and Replacement of Streets and Sidewalks are categorized into two efforts, mobility or circulation and infrastructure improvement or non-circulation.

- Funding available for Mobility, or circulation efforts, include but not limited to:
 - Measure M2
 - Gas Tax
 - Senate Bill1 – Road Maintenance and Accountability Act (RMRA)
 - System Development Charge (SDC) Circulation

- Slurry Seal Fund
- Irvine Business Complex (IBC) - Transportation
- North Irvine Transportation Mitigation (NITM)
- Funding available for infrastructure improvement, or non-circulation efforts, include but not limited to:
 - Infrastructure and Rehabilitation Fund
 - Park-in-Lieu
 - System Development Charge (SDC) Non-Circulation
 - Orange County Great Park
 - Irvine Business Complex (IBC) – Neighborhood

Equipment and Vehicles:

- The Fleet Replacement fund will be used to pay for the original acquisition, replacement, and ongoing maintenance and operation of significant equipment. Equipment replacement will be determined based on age, and actual and projected vehicle maintenance costs. The goal is to maximize each vehicle's useful life, while minimizing lifetime cost.
- The annual contribution to the Fleet Replacement fund will include: internal service charges based on the allocation of vehicle expenses to user departments, interest earnings, proceeds from sale of surplus equipment, and any vehicle-related damage and insurance recoveries.
- During the budget process, a list of new and replacement equipment for each department will be established through a fleet evaluation. The list of recommended new and replacement equipment purchases shall be approved by the City Council as part of the budget adoption.

Technology:

- The Strategic Technology Plan (STP) fund will be used to pay for the original acquisition, replacement, and ongoing maintenance and operation of significant technology.
- The annual contribution to the STP fund will include: internal service charges based on the allocation of technology expenses to user departments, interest earnings, and any proceeds from sale of surplus technology equipment.

Prior to approving the acquisition or construction of a new infrastructure asset, City staff will present to the City Council an estimate of the full cost to operate and maintain the asset through its useful life, the plan for meeting these costs, and funding availability in the applicable Repair and Replacement fund.

G. Interfund Transfers and Loans

Any transfers between funds for operating purposes shall be clearly set forth in the biennial budget. From time to time, interfund borrowing may be approved by the City Council, with clearly established terms and conditions for the loans.

H. User Fees and Cost Recovery

The City shall charge for services provided by City staff when such services benefit individual users rather than members of the community as a whole.

- User fees and charges shall be established at a level that fully covers both direct and indirect costs of providing the service, wherever possible, in accordance with the Cost Recovery policies and Master Fee Schedule established by the City Council.
- Fees shall be reviewed and updated on an ongoing basis.
- Development process costs and related administrative expenses shall be fully offset by development fees, wherever possible.

I. Cost Allocation for Administrative and Support Functions

The City shall maintain a Cost Allocation Plan (CAP) to appropriately charge special funds for central administrative and support functions costs such as executive management, legal services, personnel, equipment and facility maintenance. CAP shall be updated at least every two years.

J. Grants and Federal Funds

The City shall aggressively pursue all grant opportunities; however, before accepting grants, the City will consider the current and future implications of both accepting and rejecting the monies, including:

- The amount of matching funds required;
- In-kind services to be provided;
- Requirements for reporting, earmarking and level of effort requirements;
- The related operating expenses; and
- Length of grant and consequential disposition of service (i.e. is the City obligated to continue the services after the grant has ended).

K. Risk Management

- The City manages risk through a combination of purchased insurance and direct payment (self-insurance).
- The City self-insures workers' compensation claims and general/auto liability claims up to a certain amount (\$300,000 and \$350,000 per claim, respectively, as of 2019). Excess workers' compensation and general/auto liability insurance coverage shall be purchased. (In 2019, purchased insurance coverage of up to \$3,000,000 per claim is provided through a risk-sharing pool, the California Insurance Pool Authority (CIPA). CIPA also purchases excess coverage up to \$43,000,000 for general/auto liability and \$53,000,000 for workers' compensation.)
- Claims against the City are filed with the City Clerk's office, pursuant to Government Code 915.
- The City may outsource workers' compensation and general/auto liability claims administration services by contracting with a third-party claims administrator. (In 2019,

claims administration services are provided by AdminSure (workers' compensation) and George Hills Company (general/auto liability) through CIPA.)

- Property, earthquake/flood, pollution liability and cyber liability exposures are insured through the purchase of traditional insurance policies.
- Pursuant to Resolution No. 85-17, City Council approval is required for settlement of workers' compensation or general/auto liability claims exceeding \$20,000.
- An annual actuarial study shall be conducted to provide an estimate of the self-insured liability to be recorded by the City in accordance with Governmental Accounting Standards Board Statement No. 10. This statement requires the City to accrue a liability on its financial statements for a reasonable estimate of the cost of claims and expenses associated with all reported and unreported claims.
- The City shall maintain reserves to fund its outstanding self-insured liabilities at the minimum level of 70 percent.
- The City shall maintain a Self-Insurance Fund to both fund the liability reserve and recover all associated risk management costs, including claim payments, insurance premiums and any deductibles, and claim administration (internal and external). The fund's revenues shall be generated through assessments to City departments based on their claim experience and outstanding liabilities. These departmental assessments shall be evaluated annually and adjusted as needed.
- Staff shall report to the Finance Commission and City Council at least annually on the claims processed, amounts paid, and steps taken to manage and reduce the City's risk and liability.

L. Investment Policy

This statement of Investment Policy is intended to provide specific criteria for the prudent investment of City funds. The ultimate investment goal is to enhance the economic status of the City while protecting funds under management and meeting the daily cash flow demands of the City. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, et seq.

Scope

This investment policy applies to the City's Irvine Pooled Investment Portfolio, Bond Proceeds Portfolio, and Special District Funds Portfolio. These portfolios encompass all monies under the direct oversight of the Treasurer and include the General Fund, Reserve Funds, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Permanent Fund, Proprietary Funds, Trust and Agency Funds, including the Successor Agency to the Dissolved Irvine Redevelopment Agency, and any other funds that may be created. These funds are accounted for in the City of Irvine's Comprehensive Annual Financial Report.

Delegation of Authority

Authority to manage the City of Irvine's investment program is derived from the Charter of the City of Irvine, Section 2-2-101(B). The authority of the City Council to invest or reinvest monies of the City has been delegated by the City Council to the City Treasurer for one year or until such time the delegation is revoked. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate

FINANCIAL POLICIES

officials, and their procedures in the absence of the City Treasurer. The City Treasurer may delegate daily investment activity, such as carrying out the Treasurer's investment instructions, confirming treasury transactions, and other routine activities.

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

The Treasurer is responsible for the investment of bond proceeds and special district funds, whether held by the City, a fiscal agent, or trustee. The Bond Proceeds and Special District Funds Portfolios shall be segregated from the Irvine Pooled Investment Portfolio and will be structured with maturities (or maintain an average maturity) sufficient to meet construction drawdowns, debt service payments and other short-term liabilities. For purposes of efficiency, the Treasurer may instruct each fiscal agent or trustee to purchase certain securities regarding the investment of bond proceeds and special district funds in conformance with the permitted investment criteria documented in each bond indenture or guiding resolution. Where present, bond indenture and guiding resolution documentation for investment of bond proceeds and special district funds will supersede the City of Irvine Investment Policy guidelines. The Investment Advisory Committee will be advised of any investments made outside of the Investment Policy, pursuant to bond indentures, and/or guiding resolutions.

Currently, management of the Irvine Pooled Investment Portfolio, Bond Proceeds Portfolio, and Special District Funds Portfolio has been delegated to an investment advisory firm that has full authority to execute investment transactions on behalf of the City. In the event the contract management firm is not able to execute investment transactions, the City Treasurer and Deputy City Treasurer have the authority to execute investment transactions.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or that impairs their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests that could be related to the performance of the City's investment policy annually with the California Fair Political Practices Commission or as necessary under the Political Reform Act and Government Code Section 1090 et seq.

Prudence/Prudent investor standard

The Treasurer operates the City's pooled investment program under the Prudent Investor Standard, Government Code Section 53600.3, and applicable State laws. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing,

including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired and sold as authorized by law. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and permissible by the State of California, various bond indentures and this policy. The Treasurer strives to invest 100 percent of idle funds.

Internal Controls

The Treasurer and Manager of Fiscal Services shall establish procedures that separate the internal responsibility for management and accounting of the investment portfolios. An analysis by an external independent auditor shall be conducted annually to review internal controls, account activity and compliance with policies and procedures.

Investment Objectives

The City's cash management system is designed to accurately monitor and forecast revenues and expenditures, thus enabling the Treasurer to invest funds to the fullest extent possible. The Treasurer maintains a diversified portfolio to accomplish the primary objectives in the order of safety, liquidity, and yield.

Safety: The safety/risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The Treasurer seeks to mitigate credit risk by monitoring financial institutions with which he/she will do business, and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. Such resources as a nationally recognized statistical-rating organization (NRSRO) services are utilized for this review. The Treasurer seeks to mitigate interest rate risk through diversification of instruments as well as maturities.

Liquidity: The portfolio will be structured with sufficient liquidity to allow the Treasurer to meet anticipated cash requirements. This will be accomplished through the purchase of a diversity of instruments to include those with active secondary markets, those that can match maturities to expected cash needs, and the State Local Agency Investment Fund (LAIF) with immediate withdrawal provisions.

Yield: A competitive market rate of return is the third objective of the investment program after the fundamental requirements of safety and liquidity have been met. The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the City will seek to augment returns above the market average rate of return through the implementation of active portfolio management strategies.

Performance Evaluation

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Investment performance is continually monitored and evaluated by the City Treasurer. Investment portfolio reports are generated on a monthly and quarterly basis and submitted to the City Council, City Manager, and Investment Advisory Committee. A quarterly Treasurer's report is also presented to the City Council, Finance Commission, and Investment Advisory Committee during respective regularly scheduled meetings.

The investment portfolio reports are to be submitted within 30 days of the end of the reporting period. The monthly average yield of the Irvine Pooled Investment Portfolio will be compared to the monthly average 6-month CMT (Constant Maturity Treasury) as calculated by the Federal Reserve Bank of New York. As an added reference, the monthly average yield of the Irvine Pooled Investment Portfolio will be compared to the monthly average 2-year CMT as calculated by the Federal Reserve Bank of New York.

Diversification

The City will diversify use of investment instruments to avoid unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.

Market price volatility shall be controlled through maturity diversification, as well as ensuring adequate liquidity is available to meet cash flow requirements, thereby precluding the need to sell instruments at a market loss.

Risk of default will be controlled by acquiring instruments such as Government Securities, or by diversifying the portfolio within the constraints and parameters of Section 17 of this Policy, Authorized and Suitable Investments.

Portfolio Segregation

Within the overall funds managed by the Treasurer, bond proceeds and special district funds shall be segregated from the general City pool into their own pool and be invested in conformance with the permitted investment criteria documented in each bond indenture or guiding resolution. Furthermore, bond proceeds held by fiscal agents or trustees shall also be segregated and invested in accordance with each indenture.

The primary purpose of any separately managed bond proceeds and special district funds portfolios is to structure investment maturities to meet current and future liabilities. The preservation of principal and the maintenance of liquidity are the most important factors regarding the investment of bond proceeds and special district funds. Portfolio yield is not a primary factor since the portfolio structure, eligible investment assets and maturity restrictions are governed by draws and expenditure schedules of the issues. Performance will be based upon maximizing permitted positive arbitrage within the context of principal preservation as a first priority (pre-1986 Tax Reform Act issuances) or minimizing or eliminating negative arbitrage (yield-restricted issues).

Bond Issuance Arbitrage Rebate

The U.S. Tax Reform Act of 1986 requires the City to perform annual arbitrage calculations and rebate excess earnings to the U.S. Treasury for investment returns that exceed the allowable interest earnings limit of each bond issue. The arbitrage calculation process must be conducted for the investment of proceeds of bond issues sold after the effective date of this law. This arbitrage calculation will be contracted out to provide the necessary technical expertise to comply with this regulation. The City's investment position relative to the interest rate arbitrage restrictions is to have safety and the highest permitted return the law allows as the highest priority while ensuring the preservation of principal and liquidity.

Qualified Dealers

The Treasurer shall transact business only with Registered Investment Advisors, national or state-chartered banks, savings and loans, and broker dealers. The dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank, or approved regional or secondary market dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The Treasurer may direct a fiscal agent or trustee to execute investment transactions on behalf of the City for funds held by that fiscal agent or trustee.

The City may purchase “prime” quality rated commercial paper from its direct issuer if it presents a higher return than in the secondary market.

The Treasurer will monitor broker/dealers and their firms, to ensure they are in good standing with the appropriate regulatory agencies. The Treasurer will review financials and report back to the Investment Advisory Committee.

Safekeeping of Securities

To protect against losses caused by the collapse of individual securities dealers, all securities owned by the City, including collateral for repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement or, in the case of funds held by the fiscal agent or trustee, the fiscal agent or trustee shall segregate and report securities held on the City's behalf. Any trade executed by a dealer is required to settle on a delivery versus payment basis with the City's safekeeping agent.

Fiscal agents or trustees in receipt of City of Irvine bond proceeds will settle security transactions on a delivery versus payment method based upon instructions provided by the Treasurer or the City's investment advisor. The fiscal agents or trustees will issue monthly custodian statements evidencing securities held in safekeeping, including the receipt of interest and maturity proceeds, the disbursement of funds for the purchase of securities, and the receipt of any sale proceeds.

Collateralization

All demand deposits, time deposits and repurchase agreements are to be fully collateralized with securities authorized by the California Government Code and the City.

- The cost value (book value) of collateral pledged for demand deposits must at all times be equal to or greater than the amount on deposit, plus accrued interest, in accordance with the following ratio:

U.S. Treasury Securities	110%
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- The cost value (book value) of collateral pledged for repurchase agreements must at all times be equal to or greater than the par amount, plus accrued interest, with the following ratios:

U.S. Treasury Securities	102%
U.S. Government Agencies	102%
- It is the policy of the City to require reports at least on a quarterly basis from institutions with which the Treasurer has pledged security interest. The Treasurer shall monitor the adequacy of collateralization to ensure that balances are collateralized in accordance with the ratios approved herein.
- With regard to repurchase agreements, it is the policy of the City to initiate a margin call in the event pledged collateral falls below the appropriate ratio.
- Collateralized investments and deposits often require substitution of collateral. Any broker or financial institution requesting substitution must contact the City for approval in the event the counterparty to the transaction is not authorized under agreement with the City to make substitutions.

Maximum Maturities

- Pooled Investment Portfolio
In accordance to California Government Code Section 53601, The City will not invest in any securities maturing more than five (5) years from the settlement date of purchase. If the Treasurer desires to make investments longer than five years, express authority to make those investments, either specifically or as part of an investment program, must be approved by the City Council no less than three months prior to the investment. In no event will securities with maximum maturities beyond four years exceed 40 percent of the portfolio's total carrying cost at the time of purchase.
- Bond Proceeds Portfolio/Special District Funds Portfolio
The Bond Proceeds and Special District Funds Portfolios held by the City, fiscal agents or trustees will be structured with maturities sufficient to meet current and future disbursements and other liabilities consistent with the purpose of each bond issue. The Treasurer may match maturities to defined future liabilities or may structure the portfolio in such a manner as to maintain an average maturity and a defined liquidity percentage necessary to meet estimated liabilities. In no event will securities be purchased with final maturities that exceed a specifically defined future liquidity requirement (such as bond reserve fund availability requirement) or liability.

Investment Pools/Money Market Mutual Funds

A thorough investigation of any government sponsored pool and/or mutual fund is required prior to investing and on a continual basis. There shall be a questionnaire completed which will provide the following information:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- A description of how the pool/fund utilizes reserves, retained earnings, etc.
- A fee schedule, including when and how fees are assessed.
- The eligibility of the pool/fund to invest in bond proceeds and special district funds, and a description of its practices.

Authorized and Suitable Investments

The City is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations and based on the cost at the time of purchase, the following investments are authorized as further limited herein:

Authorized Investment Summary Matrix

<u>Category</u>	<u>Percent</u>
A. US Treasuries	no limit no
B. US Agencies	limit
C. Bankers' Acceptances	25%
D. Commercial Paper	15%
E. Repurchase Agreements	25%
F. Reverse Repurchase Agreements	15%
G. Local Agency Investment Fund (LAIF)	25%
H. Municipal Bonds	25%
I. Corporate Medium Term Notes	15%
J. Money Market Mutual Funds	20%
K. Supranationals	10%

A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category.

B. Obligations issued by United States Federal agencies or government- sponsored enterprise

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obligations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Although there is no percentage limitation on these issues, the "prudent investor" standard shall apply to investments from a single agency.

- C. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers' Acceptances. Bankers' Acceptances purchased may not exceed 180 days to maturity or 25 percent of the cost (book) value of the portfolio. No more than \$5 million may be invested in Bankers' Acceptances issued by any one bank. Prior to the purchase of any Banker's Acceptance, the portfolio manager shall review the rating of the issuing bank. Bankers' Acceptances of issuing financial institutions shall have both a short and long term rating in the highest category by at least one nationally recognized rating agency at the time of purchase.
- D. Commercial paper ranked of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by NRSRO and issued by a domestic corporation having assets in excess of \$500 million. The commercial paper must also have an "A" or better rating for the issuer's debt, other than commercial paper, if any, as provided by a NRSRO. Purchase of commercial paper from corporations on negative credit watch by a major rating agency shall be prohibited. Purchases of eligible commercial paper may not exceed 270 days to maturity. Excluding the Special District Funds Portfolio, purchases of commercial paper may not exceed 15 percent of the cost value of the portfolio at time of purchase, and no more than 3 percent of the cost value of the portfolio may be invested in commercial paper issued by any one corporation. Corporate medium term note and bankers' acceptance holdings shall be considered when calculating the maximum dollar amount in any issuer name.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

- E. Repurchase agreements. The City may invest in repurchase agreements with banks and primary dealers with whom the City has entered into a master repurchase agreement that specifies terms and conditions of repurchase agreements. No more than 25 percent of the cost value of the portfolio may be invested in repurchase agreements at any time. The maturity of repurchase agreements shall not exceed 75 days.

The cost value of securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer and will not be allowed to fall below the margin ratios specified in Section 14 (2) of this policy. In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct

obligations of, or that are fully guaranteed as to principal and interest by, the United States Government such as Treasury bills, Treasury notes or Treasury bonds with less than a five year maturity.

- F. Reverse repurchase agreements. The City may invest in reverse repurchase agreements only with those banks and primary dealers with whom the City has entered into a master repurchase agreement outlining terms and conditions of repurchase and reverse repurchase agreements. The City may only invest in reverse repurchase agreements for the following purpose:
1. The City may enter into reverse repurchase agreements when funds obtained through the reverse can be reinvested in a higher yielding security to obtain additional interest income for the City at a spread deemed to be acceptable by the Treasurer under then prevailing market conditions. Reverse repurchase agreements entered into in accordance with this paragraph may not exceed 75 days to maturity and must be matched as to maturity and dollars invested with its corresponding reinvestment. No more than 15 percent of the cost value (book value) of the portfolio may be invested in reverse repurchase agreements.
 2. Reverse repurchase agreements may be used for liquidity purposes when it is determined that the portfolio has sufficient additional collateral coming due within the term of the reverse repurchase agreement equal to or exceeding the amount of the reverse repurchase agreement.
- G. The City may invest in the LAIF established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law, but not to exceed 25 percent of the cost value (book value) of the total portfolio excluding the Bond Proceeds Portfolio.
- H. Bonds issued by local agencies of the United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency rated "AA" or better by a NRSRO. "AA" rated bonds shall be limited to 36 months maximum maturity and "AAA" rated bonds shall be limited to 60 months maximum maturity. No more than 25 percent of the cost value (book value) of the portfolio may be invested in municipal bonds.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

- I. Corporate medium term notes issued by a domestic corporation having assets in excess of \$500 million and having an "AA" or better rating criteria at time of purchase on its long-term debentures as provided by a NRSRO. Purchase of corporate medium term notes from

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corporations on negative credit watch by a major rating agency shall be prohibited. "AA" rated medium term notes shall be limited to 36 months maximum maturity and "AAA" rated medium term notes shall be limited to 60 months maximum maturity. The aggregate total of all purchased medium term notes may not exceed 15 percent of the cost value of the portfolio. No more than 3 percent of the cost value of the portfolio may be invested in corporate medium term notes issued by any one corporation. Commercial paper and bankers' acceptance holdings shall be considered when calculating the maximum percentage in any issuer name.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

- J. Money market mutual funds having a rating of "AAA" or an equivalent by no less than two NRSRO with no load and maintained at \$1 par value. No more than 20 percent of the cost value of portfolio value at time of purchase, excluding the Special District Funds Portfolio, should be invested in this category, and the City's investment in any specific mutual fund will not exceed 2 percent of that mutual fund's total assets.
- K. Supranational securities of United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AAA" or better by an NRSRO and shall not exceed 10 percent of the agency's moneys that may be invested pursuant to this section.

Ineligible Investments

Investments not described herein including, but not limited to, equity securities such as common stocks, preferred stocks, convertibles, inverse floaters, range notes and interest-only strips that are derived from a pool of mortgages are prohibited from use in this portfolio. The City is prohibited from entering into a margin agreement and/or borrowing on margin.

Investment Advisory Committee

The City has created a five-member Investment Advisory Committee as a standing Committee to advise the City on matters relating to the City's Investment Policy and the investment of City funds. The Committee meets at least quarterly with the Treasurer and City staff and reports directly to the City Council. Each Councilmember appoints one person to the Committee. The Committee member's term is concurrent with the term of the appointing Councilmember. The Committee will be governed by a set of Bylaws (Exhibit A) to be reviewed and approved annually.

Portfolio Reporting

In accordance with California Government Code, Sections 53607 and 53646(b), the Treasurer shall provide on a monthly and quarterly basis (or as otherwise requested by the City Manager) an investment portfolio report to the City Council. The report shall include a listing of each of the City's investments (a description that adequately describes the security), the purchase date, maturity date, cost basis, current cost value (book value), interest rate, weighted average maturity, current unrealized loss or gain and a listing of investment transactions that includes purchase/deposit and sale/withdrawal activity. Various investment types will be categorized and grouped in the same structure as the qualified investment categories identified in this policy. The portfolio report shall include a statement certifying the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The report will also include comments on the fixed income markets and economic conditions, and the effect, if any, on the portfolio structure and investment strategy. The report shall also detail all repurchase and reverse repurchase positions and associated liabilities.

The investment portfolio report shall include market value information for all investments. A monthly market value will be obtained for each security owned by the City. For purposes of reporting, the market value of each security may be obtained from the City's custodian bank or other pricing source(s) utilized by the City's designated investment management firm (registered investment advisor).

The City shall record interest revenue on a modified accrual basis of accounting that is typical for reporting and recording of interest earnings. Securities held by a fiscal agent or trustee shall also be recorded on a modified accrual basis of accounting. The Treasurer will report year-end investments in conformance with Governmental Accounting Standards Board Statement Nos. 31, 40, and 72.

The Treasurer will provide a monthly reconciliation of all funds included in the investment portfolios. The reconciliation shall utilize all available information including the City's books, the Demand Deposit Bank account, the custodian's statement, and the fiscal agent and trustee's statement.

Review of Investment Portfolio

The securities held by the City must be in compliance with Section 17, Authorized and Suitable Investments, at the time of purchase. The Treasurer shall review the portfolios quarterly to identify any securities that are no longer in compliance. The Treasurer shall report any major and critical incidences of noncompliance in the quarterly treasurer's report to the City Council and Investment Advisory Committee.

M. Debt Management Policy

Senate Bill (SB) 1029 (Hertzberg), signed by Governor Brown on September 12, 2016, requires issuers to adopt debt policies addressing the purposes for which debt proceeds may be used,

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the types of debt may be issued, the relationship of the debt to and, integration with, the capital improvement program or budget, policy goals, and internal control procedures to ensure debt proceeds will be directed to the intended use.

The City of Irvine's Debt Policy set forth in this document is in compliance with SB 1029.

Introduction

The City of Irvine's Debt Management Policy sets a framework for the issuance and use of debt in order to minimize the City's debt burden and cost of issuance, obtain and maintain the highest possible credit ratings, ensure full compliance with applicable federal, state and local laws and regulations, and provide optimal financial flexibility for the City. This policy applies to all debt issued by the City and its component units.

Debt Limits

The City shall maintain outstanding debt within the limits prescribed by State of California statutes and at levels consistent with credit objectives. There is no statutory restriction on the amount of revenue bonds that can be outstanding at any given time. However, each proposed financing will be carefully assessed by city staff, subject to approval by the City Council.

Debt Structure

The City will normally issue debt with the term of up to 30 years. Escalating debt service payments in later years will be avoided if practical, with the potential exception of the first and final year of a debt payment schedule. Variable rate debt may be considered when determined to be in the best interest of the City. Interest and principal payments shall not be deferred, with interest paid in the first fiscal year after debt issuance and principal starting no later than the second fiscal year.

Credit Objectives

The City of Irvine shall maintain the highest possible credit ratings for all categories of long-term debt.

The City may seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when it proves cost-effective or provides additional security for the payment of debt service.

Cost and Fees

All costs and fees related to the issuance of debt will be paid out of debt proceeds. An amount will be determined at the time of the issuance to reimburse the City for costs incurred based on the time factors and complexity of the issue. Where applicable, the annual, recurring costs incurred by the City for administering the debt shall be charged to the appropriate account.

Method of Debt Offering

The City shall evaluate the best method of offering for each proposed debt.

- I. Competitive offering. In a competitive offering, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter whose confirming bid represents the lowest true interest cost to the City.
- II. Negotiated sale. When a negotiated sale is deemed advantageous in consultation with the City's financial advisor, the City shall negotiate the most competitive pricing on debt issues and underwriter discounts in order to ensure the best value to the City. Generally in a negotiated sale, the underwriter will be selected based on a formal bid process. The City, with the assistance of its financial advisor, shall evaluate the interested underwriters' proposals on qualifications, and net fees. Criteria for selection will be determined on a case by case basis. No debt issue will be sold on a negotiated basis without an independent financial advisor.
- III. Private placement. In certain instances, the City may determine to utilize private placements or offerings to specially defined or otherwise limited investor types, but will only do so in the absence of other avenues for acquiring the required capital in a more cost effective manner or in instances where the purpose is determined to be of significant strategic importance to the City.

Relationship to Capital Improvement Program and Operating Budget

The decision to incur new indebtedness should be integrated with the City Council adopted annual operating budget and Capital Improvement Program (CIP) budget. Prior to issuance of debt, a reliable revenue source shall be identified to secure repayment of the debt and the annual debt service payments shall be included in the operating budget. The City shall integrate its debt issuances with the goals of its CIP by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes.

Use of Debt Proceeds

The City will consider the use of debt financing primarily for assets and capital projects only if the term of debt shall not exceed the asset(s) or project's useful life or will otherwise comply with Federal tax law requirements. An exception to this long-term driven focus is the issuance of short-term instruments, such as tax and revenue anticipation notes, which are to be used for reasonable cash management purposes. Bonded indebtedness should not be issued to finance normal operating expenses. General Fund debt will not be issued to support ongoing operational costs unless such debt issuance achieves net operating cost savings and such savings are verified by independent analysis.

Types of Debt Financing

General Obligation Bonds

When issuing debt, the City shall strive to use special assessment, revenue, or other self-supporting bonds in lieu of general obligation bonds. General obligation bonds will only be considered when no other funding or financing options are available. All general obligation bonds shall be authorized by the requisite number of voters in order to pass.

Short-term Financing

The City Council may authorize the issuance of municipal notes, the use of lines of credit, or capital lease arrangements as interim financing mechanisms in anticipation of future revenues at the recommendation of the Finance Commission. This interim financing will only be used when no existing City funding is available to satisfy interim financing needs. Examples of municipal notes include Tax Anticipation Notes, Revenue Anticipation Notes, Bond Anticipation Notes, or Grant Anticipation Notes.

Revenue Bonds

The City Council may authorize the issuance of revenue bonds as a means of financing capital facilities that will generate sufficient revenues to fully sustain all relevant operational and capital costs. The following criteria will be used to evaluate revenue-backed financing:

- I. Revenues available for debt service are deemed to be sufficient and reliable so that the bonds can be marketed with investment grade credit ratings. Revenue projections shall be prepared for the entire term of the contemplated bond.
- II. Market conditions present favorable interest rates and demand for the financing.
- III. The useful life of the project or asset to be financed is at least equal to the term of the Bonds to be issued.

These types of obligations are often structured as Lease Revenue Bonds or Certificates of Participation (COPs). If so structured, debt service shall not exceed the fair rental value of the leased asset for the term of the lease.

Land Secured Bonds

Land-secured bonds may be issued under the provisions of the Mello Roos Community Facilities Districts Act of 1982 (Commencing with Section 53311 of the Government Code), the Improvement Act of 1911, the Municipal Improvement Act of 1913 for special assessment districts and the Improvement Bond Act of 1915 Act for the issuance of bonds. These bonds become an obligation of the special district and are not an obligation of the City or any of its component units.

Conduit Financing

The City may sponsor conduit financing for the activities that have a general public purpose and are consistent with the City's stated policy objectives. The City will consider all requests for conduit financing based on the articulated public purpose of the proposed financing, and the applicant's ability to achieve such purpose.

All conduit financing must insulate the City completely from any credit risk, and financial or legal exposure. The City may, at its sole discretion, require additional protections including but not limited to asset appraisals, financial audits, and additional security to ensure that the City's interests will be appropriately protected.

The City may charge a fee for sponsoring conduit financing activities based on the specifics of the financing, in order to recover staff time and overhead.

The City may elect to participate in other conduit type financings that are administered by another local, regional or statewide government agency or financing authority, and if it is determined to be in the best interest of the City with no liability or risk.

Refunding Bonds

Periodic reviews of all outstanding debt will be undertaken by the City's finance team to determine refunding (refinancing) opportunities. The purpose of refinancing may be to:

- I. Achieve or monetize debt service savings.
- II. Update or revise covenants on an outstanding debt issue.
- III. Restructure debt service associated with an issue.
- IV. Change debt characteristics such as call provisions or payment dates.

Generally, the City will strive to achieve a minimum of five percent net present value savings of the refunded debt, net of cost of issuance. A higher minimum threshold for savings may be considered in the case of advance refunding.

Compliance

Pre-issuance Compliance

Senate Bill No. 1029 requires issuers of debt of state or local government to submit reports to the California Debt and Investment Advisory Commission (CDIAC), within specific timeframes, of the proposed issuance of debt.

The Report of Proposed Debt shall include a certification that the City has adopted a debt policy, which includes specified provision concerning the use of debt, and that the proposed debt issuance is consistent with the policy.

The Report of Proposed Debt shall be filed with CDIAC in a timely fashion. In addition, the City shall periodically update this policy to ensure provisions concerning the use of debt continue to meet the City's needs.

Investment of Proceeds

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds, as well as restriction on the time period over which the proceeds may be invested.

Arbitrage Rebate

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Due to the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the City shall contract with an independent expert for preparation of the arbitrage rebate calculation in accordance with the IRS code and regulations.

The City shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings by each issue with the assistance from its fiscal agent(s).

Continuing Disclosure

The City established its Continuing Disclosure Compliance Procedures outlining its responsibilities as the issuer to make all reasonable efforts to assist underwriters in their efforts to comply with Security Exchange Commission or SEC Rule 15c2-12 and MSRB Rule G-36. The City will file Continuing Disclosure reports and/or certificates with the Electronic Municipal Market Access (EMMA) system, the official repository for information on all municipal bonds. The City will also provide a copy of its Comprehensive Annual Financial Reports (CAFR) upon request and will disseminate other information that it deems pertinent to the market as required. While initial bond disclosure requirements pertain to bond offering statements, the City will provide financial information and notices of material events on an ongoing basis throughout the life of the issue in accordance with agreements to do so on a transaction-by-transaction basis.

With respect to conduit debt, continuing disclosure requirements will be provided by the City only if the City is contractually obligated to do so. The City is to be reimbursed by the borrower for the cost of providing continuing disclosure services.

Post-Issuance Compliance

Tax-exempt bonds issued by the City retain their tax-exempt status throughout the life of the issue if all applicable federal tax laws are satisfied while the bonds are outstanding. Various requirements apply under the Internal Revenue Code and Income Tax Regulations including information filing and other requirements related to issuance, the proper and timely use of bond-financed property, and arbitrage yield restriction and rebate requirements.

Internal Control Procedures

The City shall periodically review the requirements of and will remain in compliance with the following:

- I. Federal securities law, including any continuing disclosure undertakings under SEC Rule 15c2-12
- II. Any federal tax compliance requirements including without limitation arbitrage and rebate compliance
- III. The City's investment policies as they relate to the investment of bond proceeds
- IV. Government Code section 8855(k) and the annual reporting requirements therein

CITY COUNCIL RESOLUTION NO. 19-60

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF IRVINE, CALIFORNIA, ADOPTING AND APPROVING THE APPROPRIATIONS BUDGET AND FINANCIAL POLICIES FOR THE CITY OF IRVINE FOR FISCAL YEARS 2019-21

WHEREAS, the Budget for Fiscal Year 2019-21 has been prepared by the City Manager in accordance with Section 1-3-210 of the Irvine Municipal Code; and

WHEREAS, the City Council is required to adopt a budget prior to the beginning of the fiscal year in accordance with the City Charter.

NOW, THEREFORE, the City Council of the City of Irvine DOES HEREBY RESOLVE as follows:

SECTION 1. The budget for the City of Irvine for Fiscal Years 2019-21 is approved and adopted by the City Council as follows:

GENERAL FUND	2019-20	2020-21
APPROPRIATIONS		
CITY MANAGER'S OFFICE	5,114,231	5,393,077
CITY CLERK	2,827,856	3,110,657
FINANCIAL MGNT & STRAT PLANNING	5,592,774	5,855,828
HUMAN RESOURCES & INNOVATION	3,988,066	4,071,635
COMMUNITY DEVELOPMENT	13,241,252	13,838,613
COMMUNITY SERVICES	39,624,457	40,778,942
PUBLIC SAFETY	87,391,342	91,409,853
PUBLIC WORKS	27,128,084	27,722,949
TRANSPORTATION	4,208,325	4,269,501
NON-DEPARTMENTAL	5,153,410	5,227,797
SUB-TOTAL APPROPRIATIONS	\$ 194,269,797	\$ 201,678,852
TRANSFERS-OUT		
ASSET MANAGEMENT PLAN FUND	\$ 2,000,000	\$ 2,000,000
EDUCATIONAL PARTNERSHIP FUND	4,000,000	4,000,000
LABOR AGREEMENT FUND	473,505	-
OFFICE OF AGING PROGRAMS	474,964	486,342
iSHUTTLE	24,529	25,346
COMMUNITY SERVICES PROGRAM	73,650	-
LANDSCAPE, LIGHTING & PARK MAINTENANCE	5,483,329	6,149,015
SUB-TOTAL TRANSFERS-OUT	\$ 12,529,977	\$ 12,660,703
TOTAL GENERAL FUND	206,799,774	214,339,555
SPECIAL FUNDS		
APPROPRIATIONS	\$ 370,839,593	\$ 314,083,456
TRANSFERS-OUT	203,386,888	98,518,378
TOTAL SPECIAL FUNDS	\$ 574,226,481	\$ 412,601,833
TOTAL ALL FUNDS	\$ 781,026,255	\$ 626,941,388

FINANCIAL POLICIES

SECTION 2. The Fiscal Year 2019-21 Financial Policies as presented in the 2019-21 Budget are adopted by the City Council.

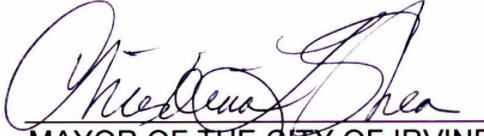
SECTION 3. Direct staff to take advantage of available savings by utilizing the Public Employees Retirement System's advance payment option for Fiscal Years 2019-21.

SECTION 4. Authorize the execution of the loan from the Asset Management Plan (AMP) Fund 002 to the Building and Safety Fund 024 for \$4.6 million to replace the City's permitting system.

SECTION 5. Authorize the execution of a sole source contract with Aerophile California LLC for the as-needed maintenance, operation, and repair of the Great Park balloon

SECTION 6. That the City Clerk shall certify to the passage and adoption of this Resolution and enter it into the book of original Resolutions.

PASSED AND ADOPTED by the City Council of the City of Irvine at a regular meeting held on the 11th day of June, 2019.


MAYOR OF THE CITY OF IRVINE

ATTEST:


CITY CLERK OF THE CITY OF IRVINE

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS
CITY OF IRVINE)

I, MOLLY M. PERRY, City Clerk of the City of Irvine, HEREBY DO CERTIFY that the foregoing resolution was duly adopted at a regular meeting of the City Council of the City of Irvine, held on the 11th day of June 2019, by the following vote:

AYES: 5 COUNCILMEMBERS: Carroll, Fox, Khan, Kuo, and Shea

NOES: 0 COUNCILMEMBERS: None

ABSENT: 0 COUNCILMEMBERS: None

ABSTAIN: 0 COUNCILMEMBERS: None



CITY CLERK OF THE CITY OF IRVINE

CITY COUNCIL RESOLUTION NO. 19-59

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF IRVINE, CALIFORNIA, ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2019-20

WHEREAS, California Constitution Article XIII B restricts the appropriations growth rate for cities and other local jurisdictions; and

WHEREAS, Article XIII B, as amended by Proposition 111, requires cities to calculate their annual appropriations limit by the percentage change in 1) City population growth or county population growth; and 2) California per capita personal income or the increase in non-residential assessed valuation due to new construction; and

WHEREAS, documentation used in the determination of the appropriations limit for Fiscal Year 2019-20 has been available to the public in the Administrative Services Department for fifteen days prior to this meeting as required by Government Code Section 7910; and

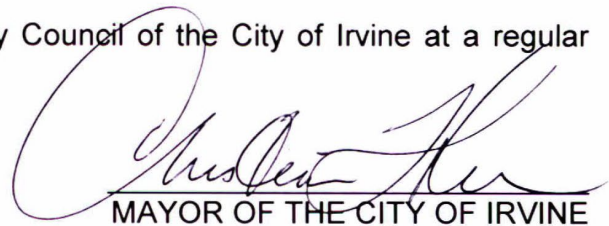
WHEREAS, a summary of this computation is provided in Exhibit A, which is incorporated by reference and attached hereto.

NOW, THEREFORE, the City Council of the City of Irvine DOES HEREBY RESOLVE as follows:


SECTION 1. That the Appropriations Limit for Fiscal Year 2019-20 shall be \$381,400,106, as calculated in Exhibit A, and the Appropriations Subject to Limitation in Fiscal Year 2019-20 shall be \$179,536,628.

SECTION 2. That the City Clerk shall certify to the passage and adoption of this Resolution and enter it into the book of original Resolutions.

PASSED AND ADOPTED by the City Council of the City of Irvine at a regular meeting held on the 11th day of June 2019.


MAYOR OF THE CITY OF IRVINE

ATTEST:


CITY CLERK OF THE CITY OF IRVINE

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS
CITY OF IRVINE)

I, MOLLY M. PERRY, City Clerk of the City of Irvine, HEREBY DO CERTIFY that the foregoing Resolution was duly adopted at a regular meeting of the City Council of the City of Irvine, held on the 11th day of June 2019.

AYES: 5 COUNCILMEMBERS: Carroll, Fox, Khan, Kuo, and Shea

NOES: 0 COUNCILMEMBERS: None

ABSENT: 0 COUNCILMEMBERS: None

ABSTAIN: 0 COUNCIL MEMBERS: None



CITY CLERK OF THE CITY OF IRVINE

City of Irvine
Annual Appropriations Limit
Fiscal Year 2019-20

Calculation of Limit:

Appropriations Limit for FY 2018-19		359,201,456
Adjustment Factors		
Economic Factor (California per capita personal income)	1.0385	
Population Factor (City)	<u>1.0224</u>	
Economic Ratio * Population Ratio		<u>1.0618</u>
Appropriations Limit for FY 2018-19		<u>\$ 381,400,106</u>

EXHIBIT A

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Jan Marino

Citywide Financial Policies Compliance

On May 9, 2018 the City Council adopted Resolution R-18-08, the revised Citywide Financial Policies. Staff comment follows below on our performance vis-à-vis each section of the Policies. Each section of the Policies appears in bold type; comments appear in italic type.

SECTION 1. General Fund Reserves –

- a. The City shall maintain General Fund Reserves (Unassigned Fund Balance) at approximately 40% of General Fund revenues.**
- b. One-time revenues (including the use of reserves) should only be used for one-time expenditures, such as the purchase of capital equipment or specific infrastructure projects. General Fund reserves should only be used to cover unanticipated/unplanned expenditures or revenue shortfalls due to economic cycles.**
- c. If reserves are used, the City shall begin rebuilding the reserve balance as quickly as practical. Rebuilding may take place over a two- to three-year timeframe.**
- d. Periodic transfers from accumulated General Fund Reserves shall be transferred to the Capital Projects Fund and the Capital Equipment Fund when appropriate for the execution of projects and acquisitions.**

Compliance has been achieved with this policy. On April 27, 2018 the City Council approved various recommendations regarding reserves, including the stipulation that the City achieve a 40% reserve ratio, measured against revenue, from year to year. In creating the reserve requirement, the Council also acted to transfer \$12,454,629 of the Unassigned General Fund balance at June 30, 2017 to the Capital Projects Fund. This transfer has been completed.

SECTION 2. Annual Budget Adoption -- The annual budget is adopted by the City Council by at least June 30 of each fiscal year, and includes proposed expenditures and the means of financing them. The annual budget provides for the general operations of the City and, as appropriate, its near-term and long-term capital project and capital acquisition needs.

Compliance has been achieved with this policy. Cognizant of the June 30th deadline, the City Council acted in March 2018 to adopt a Resolution of Continuing Appropriations of the FY 18 Budget until August 31, 2018 in order to incorporate the results of its Strategic Plan and the recommendations of the Strategic Financial Planning Committee into the FY 19 Budget.

SECTION 3. Appropriations and Budget Authority – The City Council approves total budgeted appropriations and any amendments to appropriations throughout the fiscal year. This “appropriated budget” covers substantially all City expenditures. Actual expenditures may not exceed budgeted appropriations at the fund level. The City Manager is authorized to transfer budgeted amounts between the operating accounts of any

department, and between departments. The City Council is authorized to transfer and amend capital projects and capital acquisition budgets.

Compliance has been achieved with this policy.

It appears that the City did not comply with this requirement in the past in its accounting for the Donations Fund. Amounts donated to the City were deposited without a revenue budget, and these same amounts were expended without an expenditure budget. Also, residual amounts were assigned against fund balance in the City's Financial Statements until Fiscal Year 2017, effectively carrying funds between years without authorizing documentation. The FY 19 Proposed Budget re-establishes a Donations Fund having stricter application of estimations for revenue and expenditures; procedures will require that unexpected donations be approved by the City Council before deposit and expenditure.

SECTION 4. Financial Reporting – The City shall publish, no less than quarterly, financial reports adequate to inform the City Council on the financial condition of the City.

Compliance has been achieved with this policy. In October 2017 City staff commenced publication of monthly financial reports. Prior to this event, available records indicate that the City had not published a financial report since May 2016.

SECTION 5. Long-Range Financial Planning – The City shall publish as a component of its annual budget a long-range projection for General Fund activities and operations.

Compliance has been achieved with this policy. On April 27, 2018 the Strategic Financial Planning Committee published a long-range financial outlook. City staff introduced the Five-Year Forecast, a tool directly descended from the Financial Planning Committee, during the May 9, 2018 budget discussion with the City Council, and will make extensive use of the Forecast during all budget deliberations.

SECTION 6. Encumbrance Accounting Systems – Encumbrance accounting, under which purchase order, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, shall be employed as an extension of formal budgetary in the Governmental Fund Types during the year. However, at year-end, all appropriations lapse. Accordingly, encumbrances are cancelled. Encumbrances can be re-appropriated as part of the following year's budget by action of the City Council. Encumbrances are not included in reported expenditures.

The City continues its compliance with the requirement that all appropriations lapse at year end. However, the City has never achieved compliance with this policy in terms of encumbrance accounting and contracts management. Years ago, the Finance Department purchased the purchase order/encumbrance module for its accounting software. The module has never been activated, nor has an internal system of purchase order management been established. Our independent auditors have commented on this fundamental flaw in financial management, and it is expected that the City's new Accounting Manager/Controller will assist the City to achieve compliance during FY 19.

SECTION 7. GAAP Requirements – Budgets for the general, special revenue and capital projects funds are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items. The debt service fund is monitored through the use of appropriate bond indentures; therefore no formal budget is required for this fund and, accordingly, a budgetary comparison may not be required for these funds.

Compliance has been achieved with this policy.

SECTION 8. The Gann Limit – Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. The City shall calculate and publish its annual Gann Limit as a component of the annual budgeting process.

Compliance has been achieved with this policy. The City will be adopted is Gann Limit Resolution with its Adopted Budget in August 2018.

SECTION 9. Capital Assets – The City will capitalize assets and equipment with individual minimum value of \$5,000 or greater.

Compliance has been achieved with this policy. However, in a related functional area, the City's auditors have commented that is not fully compliant with the requirements for fixed asset accounting. The City's Controller is already at work to improve fixed asset accounting in the City, and these efforts will culminate with the transition of Excel-based documentation to a fixed asset module in the City's automated accounting system.

SECTION 10. Investment Policy – The City shall at all times maintain compliance with the California Government Code with respect to the content and function of its Investment Policy. The Investment Policy shall be reviewed by the City Treasurer and adopted by the City Council each fiscal year.

Compliance has been achieved with this policy.

SECTION 11. Investment Reporting – The City Treasurer shall render and review monthly reports to the City Council which shall include all reportable elements specified in the City's Investment Policy.

Compliance has been achieved with this policy.

SECTION 12. Procurement and Purchasing – The City shall maintain a Procurement Policy and organize its acquisition and accounting procedures to achieve compliance with all terms of the Procurement Policy.

Compliance has been achieved with this policy in terms of its procedures for procurement and purchasing, but is not compliant in terms of the requirements for encumbrance accounting. The City is in unproven compliance with its contractual management practices. See detailed explanation in Section 6 above.

SECTION 13. Long-Term Liabilities – The City shall evaluate long-term liabilities (debt borrowings, compensated absences, claims and judgments, CalPERS pensions, annual other postemployment benefits, etc.) on a case-by-case basis with appropriate deference to the short- and long-term cash requirements implicit to the liabilities. When resources are adequate, the City shall establish a Debt Management Policy that modifies this Section.

Compliance has been achieved with this policy.

SECTION 14. Capital Planning – The City shall publish with its annual budget a long-range capital improvement program, identifying, at a project level, sources of current and future funding. When resources are adequate, the City shall establish Capital Planning Policies that take into account the City’s unique organizational characteristics including the services we provide, how the services are structured, and the complete depiction of our external environment. The City shall exploit all external options to pay for portions of its infrastructure needs. We will endeavor to avoid capital project funding sourced solely from City dollars.

Compliance is being achieved with this policy. On April 27, 2018 the Strategic Financial Planning Committee published a long-range financial outlook. City staff, working with the Chairperson of the Committee had simultaneously incorporated the Committee’s planning data into a Five-Year Capital Improvement Plan Projection that will be published during FY 19 Budget deliberations. Capital projects planning has much greater importance in the organization following the City Council action to transfer \$12,454,629 of the Unassigned General Fund balance at June 30, 2017 to the Capital Projects Fund. The Capital Projects Fund 5-Year Projection is included within this publication.

SECTION 15. Annual Audit – The City shall publish its annual financial statements, prepared in coordination with its external auditors, by at least December 31 of each fiscal year. The financial statements shall be presented to the City Council at a public meeting, and implications discussed, each year. The City shall endeavor to achieve audits with minimal auditor “findings.” The City shall swiftly and thoroughly respond, at every level of institutional function, to audit “significant deficiencies.”

Compliance has been achieved with this policy in greatest part. This City’s recent history of audit findings, in particular those of FY 15 and FY 16, have not been corrected to the complete satisfaction of management.

SECTION 16. Cost Recovery – The City shall employ the principles and practices of cost recovery for services in a manner consistent with generally accepted cost of services and cost allocation best practices.

Compliance on this policy is pending policy discussion and Council action. The City has published in its annual budget a system of revenue matching to expenditures that does not have a record of origin, nor a discernable attachment to a cost allocation study. The City now publishes an alternative calculation of cost recovery. The alternative calculation is based on the methodology used for the Statement of Activities in the City's annual financial statements. Neither methodology rests on the foundation of a verified cost allocation plan.

SECTION 17. Risk Management – The City shall maintain a vibrant risk management program in order to effectively plan for and mitigate the effects of known and unknown risk and liability. The City shall evaluate joint-powers risk pooling arrangements, pursuant to the California Government Code; arrange and administer programs for effective and efficient self-insurance; appropriately purchase excess insurance and reinsurance; and arrange for appropriate insurance for property and other lines of coverage.

Compliance has been achieved with this policy.

SECTION 18. Grants Management – The City shall establish a Grants Management Policy that most efficiently coordinates the various elements of grant applications; grant awards; grant spending and reimbursement; interim and final financial and narrative reporting; and grant closure.

Compliance has been achieved with this policy, but subject to considerable improvement if and when the City has in its possession a significant 3rd party grant. Recent audits have disclosed findings that the City failed to recover \$100,000 in reimbursement for a Park Bond Grant for approximately 2 years. The Grant was finally closed in October 2017.

SECTION 19. Corporate Technology – The City shall endeavor to maintain corporate and user-based technology necessary to maintain appropriate organizational function.

Compliance is not being achieved with this policy. The City relied upon an outdated contractual arrangement with a 3rd party information technology firm for 23 years. There was significant managerial concern, and sometimes alarm, with the appropriate function of technology at the corporate level and at the user (employee) level as a result. There was also alarm with the potential for system security vulnerabilities.

Becoming aware of system security vulnerabilities consistent with the requirements for emergency procurement, the City accomplished the immediate transition of the contract to a new IT contractor in June 2018. At this writing, the City's IT Director and Executive Team are engaged in a process of contract development that will focus on reestablishing the integrity of the City's network at foundational levels. Of equal importance are user requirements for the City's employees. Outdated equipment and poor alignment among user applications are a threat to basic human resources productivity.

SECTION 20. Pension Obligations – The City shall not prepay its pension obligations by issuing pension obligation bonds: this is the equivalent of paying off one debt

with another debt. The City shall not accelerate its pension payments by making annual contributions higher than annual payments required by CalPERS. The City shall pay the minimum annual contributions required by CalPERS.

Compliance has been achieved with this policy. In FY 18, the Strategic Financial Planning Committee completed a 30-year projection of the City's CalPERS future pension costs. The Committee concluded that the City will have freedom sufficient in its annual income statement to shoulder the City's future pension obligations, inclusive of unfunded liabilities, without alteration of basic City services. At the same time, the Committee expressed strong desire that the City continue its annual pattern of General Fund reserves accumulation and the correlating practice of capital financing through transfers to the Capital Projects Fund. The Committee was clear in its understanding that future accumulation of reserves rests, in largest part, on continuation of the City's Public Safety Parcel Tax.

RESOLUTION NO. R-18-08

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN MARINO, CALIFORNIA ADOPTING CITYWIDE FINANCIAL POLICIES

BE IT RESOLVED AND PROCLAIMED by the City Council of the City of San Marino, California that this Resolution articulates the City's fundamental financial policies.

BE IT FURTHER RESOLVED that the City's financial policies should be periodically reviewed with intention to modify, add or delete policies as the City's financial management evolves and as conditioned by relevant law and best practices.

BE IT FURTHER RESOLVED that this Resolution repeals and replaces Resolution No. R-17-25.

SECTION 1. General Fund Reserves –

- a. The City shall maintain General Fund Reserves (Unassigned Fund Balance) at approximately 40% of General Fund revenues.
- b. One-time revenues (including the use of reserves) should only be used for one-time expenditures, such as the purchase of capital equipment or specific infrastructure projects. General Fund reserves should only be used to cover unanticipated/unplanned expenditures or revenue shortfalls due to economic cycles.
- c. If reserves are used, the City shall begin rebuilding the reserve balance as quickly as practical. Rebuilding may take place over a two- to three-year timeframe.
- d. Periodic transfers from accumulated General Fund Reserves shall be transferred to the Capital Projects Fund and the Capital Equipment Fund when appropriate for the execution of projects and acquisitions.

SECTION 2. Annual Budget Adoption -- The annual budget is adopted by the City Council by at least June 30 of each fiscal year, and includes proposed expenditures and the means of financing them. The annual budget provides for the general operations of the City and, as appropriate, its near-term and long-term capital project and capital acquisition needs.

SECTION 3. Appropriations and Budget Authority -- The City Council approves total budgeted appropriations and any amendments to appropriations throughout the fiscal year. This "appropriated budget" covers substantially all City expenditures. Actual expenditures may not exceed budgeted appropriations at the fund level. The City Manager is authorized to transfer budgeted amounts between the operating accounts of any department, and between departments. The City Council is authorized to transfer and amend capital projects and capital acquisition budgets.

SECTION 4. Financial Reporting – The City shall publish, no less than quarterly, financial reports adequate to inform the City Council on the financial condition of the City.

SECTION 5. Long-Range Financial Planning – The City shall publish as a component of its annual budget a long-range projection for General Fund activities and operations.

SECTION 6. Encumbrance Accounting Systems -- Encumbrance accounting, under which purchase order, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, shall be employed as an extension of formal budgetary in the Governmental Fund Types during the year. However, at year-end, all appropriations lapse. Accordingly, encumbrances are cancelled. Encumbrances can be re-appropriated as part of the following year's budget by action of the City Council. Encumbrances are not included in reported expenditures.

SECTION 7. GAAP Requirements -- Budgets for the general, special revenue and capital projects funds are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items. The debt service fund is monitored through the use of appropriate bond indentures; therefore no formal budget is required for this fund and, accordingly, a budgetary comparison may not be required for these funds.

SECTION 8. The Gann Limit -- Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. The City shall calculate and publish its annual Gann Limit as a component of the annual budgeting process.

SECTION 9. Capital Assets -- The City will capitalize assets and equipment with individual minimum value of \$5,000 or greater.

SECTION 10. Investment Policy – The City shall at all times maintain compliance with the California Government Code with respect to the content and function of its Investment Policy. The Investment Policy shall be reviewed by the City Treasurer and adopted by the City Council each fiscal year.

SECTION 11. Investment Reporting – The City Treasurer shall render and review monthly reports to the City Council which shall include all reportable elements specified in the City's Investment Policy.

SECTION 12. Procurement and Purchasing – The City shall maintain a Procurement Policy and organize its acquisition and accounting procedures to achieve compliance with all terms of the Procurement Policy.

SECTION 13. Long-Term Liabilities – The City shall evaluate long-term liabilities (debt borrowings, compensated absences, claims and judgments, CalPERS pensions, annual other postemployment benefits, etc.) on a case-by-case basis with appropriate deference to the short- and long-term cash requirements implicit to the liabilities. When resources are adequate, the City shall establish a Debt Management Policy that modifies this Section.

SECTION 14. Capital Planning – The City shall publish with its annual budget a long-range capital improvement program, identifying, at a project level, sources of current and future funding. When resources are adequate, the City shall establish Capital Planning Policies that take into account the City’s unique organizational characteristics including the services we provide, how the services are structured, and the complete depiction of our external environment. The City shall exploit all external options to pay for portions of its infrastructure needs. We will endeavor to avoid capital project funding sourced solely from City dollars.

SECTION 15. Annual Audit – The City shall publish its annual financial statements, prepared in coordination with its external auditors, by at least December 31 of each fiscal year. The financial statements shall be presented to the City Council at a public meeting, and implications discussed, each year. The City shall endeavor to achieve audits with minimal auditor “findings.” The City shall swiftly and thoroughly respond, at every level of institutional function, to audit “significant deficiencies.”

SECTION 16. Cost Recovery – The City shall employ the principles and practices of cost recovery for services in a manner consistent with generally accepted cost of services and cost allocation best practices.

SECTION 17. Risk Management – The City shall maintain a vibrant risk management program in order to effectively plan for and mitigate the effects of known and unknown risk and liability. The City shall evaluate joint-powers risk pooling arrangements, pursuant to the California Government Code; arrange and administer programs for effective and efficient self-insurance; appropriately purchase excess insurance and reinsurance; and arrange for appropriate insurance for property and other lines of coverage.


SECTION 18. Grants Management – The City shall establish a Grants Management Policy that most efficiently coordinates the various elements of grant applications; grant awards; grant spending and reimbursement; interim and final financial and narrative reporting; and grant closure.

SECTION 19. Corporate Technology – The City shall endeavor to maintain corporate and user-based technology necessary to maintain appropriate organizational function.

SECTION 20. Pension Obligations – The City shall not prepay its pension obligations by issuing pension obligation bonds: this is the equivalent of paying off one debt with another debt. The City shall not accelerate its pension payments by making annual contributions higher than annual payments required by CalPERS. The City shall pay the minimum annual contributions required by CalPERS.

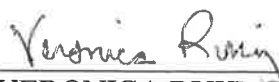
The City Clerk shall certify to the adoption of this Resolution.

PASSED, APPROVED AND ADOPTED this 9th day of May, 2018.



STEVE TALT, MAYOR

ATTEST:



VERONICA RUIZ, CMC
CITY CLERK

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF SAN MARINO)

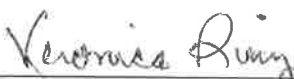
I, VERONICA RUIZ, City Clerk of the City of San Marino, California, hereby certify that Resolution No. R-18-08 was adopted by the City Council of the City of San Marino at a Regular Meeting held on the 9th day of May, 2018, and that the same was adopted by the following vote:

AYES: COUNCIL MEMBERS: SUSAN JAKUBOWSKI, GRETCHEN SHEPHERD
 ROMEY, MAYOR STEVE TALT

NOES: NONE

ABSENT: COUNCIL MEMBER KEN UDE, VICE MAYOR STEVEN HUANG

ABSTAIN: NONE



VERONICA RUIZ, CMC
CITY CLERK



Finance Commission Agenda Report

DATE: March 25, 2021

FROM: Elaine Aguilar, Interim Assistant City Manager

SUBJECT: **Discussion Regarding Fiscal Year 2021 and 2022 Annual Budget**

Recommendation

It is recommended that the Finance Commission receive this update, and provide preliminary direction, if desired.

Discussion/Analysis

The purpose of this report is to provide the Commission with an update regarding the FY 2021 Budget and to begin discussion of the FY 2022 Budget.

FY 2021 Budget

The Commission has reviewed and authorized the FY 2021 Budget to be forwarded to the City Council. However, due to technological difficulties, the streaming of the March 17, 2021 Council meeting ceased as the budget was being presented. The City Council meeting was adjourned before the Council could adopt the FY 2021 Budget. The budget will be on the April 7th Council agenda for consideration.

FY 2022 Budget

The anticipated schedule for the FY 2022 Budget that covers the period of July 1, 2021 to June 30, 2022 is shown below:

Preliminary Budget Discussion

March 25, 2021

Page 2

- April 7, 2021 – Report to City Council seeking preliminary direction.
- April 8 to May 30 – Budget preparation
<https://www.southpasadenaca.gov/government/departments/finance>
- Early June – Budget review by the Commission
- Late June to Early July – Budget adoption by the City Council

Staff is working diligently to get the budget and audit back on track. The FY 2020 Audit is currently underway, and work is about to begin on the FY 2022 Annual Budget.

One of the preliminary steps involved in the budget process is public input. The schedule is tight, but it is still possible to seek input from the public before the budget is finalized. It would be helpful for the City Council to receive input from the Commission regarding the public input process.

Basically, staff has identified 3 options for public input:

1. A scheduled one time, public input meeting, where the public would participate via zoom, or could email their comments to a special city email for public input regarding the budget. Staff would provide a presentation regarding resources (revenues) and expenses (city operations, departments, overhead expenses, etc.) There could be a prepared set of questions seeking input, or there could be no pre-prepared questions.
2. A fully online public input process, similar to the one originally conducted for the FY 2021 Budget process. This online process is still on the City's Finance Department page and can be accessed here:
3. Obtaining public input at Council meetings, on an ongoing basis, as the budget is being prepared. For example, there could be an initial Council meeting where city revenues are presented. At a second Council meeting, departments could make presentations regarding their operations, and a third Council meeting could review capital improvement projects. Followed by a final Council meeting where the results of input from the previous three meetings are summarized. At the fifth meeting, the budget could be presented. (But would first go to the Commission.)

While public input is being received, staff would continue to work on developing revenue and expenditure estimates. This is a significant undertaking, involving the City Manager and all city staff. Pursuant to the Municipal Code, the City Manager is responsible for ensuring that the proposed city budget is prepared and submitted to the City Council.

One of the frequently asked questions is, "When will city operations "return to normal?". At this time, it is impossible to know when things will return to pre-pandemic operations, and things may never return completely to normal, but staff, directed by the City Manager will be spending some time planning a gradual reopening, as laws and personal safety allow. As the Commission is aware, all city operations were impacted in one way or another. Some incurred additional costs due to the cost of PPE's and sanitation, and other supplies. While other departments, such as Community Services experienced a steep decline in services levels, as the "stay at home

orders” were implemented and special events, classes, and summer camp were put on hold. It would be appropriate, if the Commission has any thoughts in this area to share them with staff, so that the Council can be informed of the Commission’s discussion.

Background

Now that the FY 2021 Budget is complete, it is time to begin working on the FY 2022 Annual Budget, that covers the period of July 1, 2021 to June 30, 2022.

This staff report identifies a few areas where staff is currently seeking Commission input regarding the Fiscal Year 2022 Budget process. This is an ongoing process and staff will return periodically to the Commission. Staff will be including the Commission’s input in the report that will go to the City Council at their April 7th meeting.

Fiscal Impact

This item allows the Finance Commission to comment on the development of the Fiscal Year 2022 Budget. There is no direct fiscal impact at this time, other than staff time preparing the report.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City’s website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.



Finance Commission Agenda Report

DATE: March 25, 2021

FROM: Elaine Aguilar, Interim Assistant City Manager

SUBJECT: **Financial Sustainability Plan Update**

Recommendation

It is recommended that the Finance Commission receive and file this update.

Discussion/Analysis

One of the items on the Commission's work plan for the past two years has been an update regarding the City's Financial Sustainability Plan. It was apparent that this plan has not been before the Commission for a period of time, so it is staff's intent to "get current" with this work plan item.

The city's Long-Term Financial Sustainability Plan was approved by the City Council in June 2019. A copy of the June 19, 2019 staff report is attached. It appears that the Finance Commission was involved in the preparation of the plan.

The July 2019 staff report provides insightful information about city revenues and expenditures. In some areas progress has been made. Below is a summary of the report's recommendations:

Revenues

- Utility Users Tax – The June 2019 staff report was prepared before the UUT extension was considered by the voters in 2020. As the Commission is aware, South Pasadena voters approved an extension of the UUT. Similar to 2019, it should be mentioned that while in some aspects the UUT is a "stable" revenue source, in other ways it is impacted by changes in technology and consumer preferences. Staff will be returning to the next Commission meeting with an analysis of this revenue source.
- Sales Taxes – The June 2019 staff report looked to economic development and a local sales tax measure (such as the recently approved ¾% sales tax increase), as a revenue enhancement. As the Commission is aware, South Pasadena voters ultimately approved the ¾% sales tax increase, which for the current fiscal year is estimated to generate approximately \$2 million in additional sales tax revenue. (The June 2019 staff report estimated revenues of \$1.5 million.)
- User Fees – The June 2019 staff report indicated that at that time, user fees had not been increased in almost a decade. The report indicates that the city was currently reviewing all user fees. As the Commission is aware, a user fee study was ultimately completed,

and the city has begun annually increasing user fees by the CPI. User fees will be coming to the Commission in the near future.

Expenses

- Employee Compensation – When the June 2019 report was prepared, employee salaries had not been increased in two years, and only marginal increases in previous years. The City was scheduled to begin contract negotiations with all labor groups for the period beginning July 2019. As the Commission is aware, contract negotiations were completed, and the cost of salary increases are included in the city's budgets.
- State Pension Obligations – In the June 2019 report, it was mentioned that while the city offers the lowest possible pension formula, none the less, the city would bear the cost of increased payments to PERS over the next five years at least. The report mentions that many cities are hiring independent actuarial consultants to better analyze future impacts and plan appropriate strategies. The Commission has an item on its work plan to evaluate pre-payment alternatives. The City Council is seeking the Commission's recommendation on this matter.
- Streets and Infrastructure – The June 2019 report indicates that there is a large unfunded need for the repair of streets and other city infrastructure. The report indicates that funding will need to come from grants and the general fund. However, much deferred maintenance remains.
- Technology and Advancements – The June 2019 report identifies the need to invest in technology. The city has embarked on a plan to upgrade internal technology, such as new servers, and a large investment has been made in the police department's mobile digital technology. However, much more needs to be done to keep up with advances.

Other Efforts

- Investment in Economic Development - Staff was reorganized to create a focus team to develop an economic development strategy. The City's strategic Plan includes items such as developing a branding/marketing plan, a parking management plan, a promotional video, and a permit streamlining guide; this project has not made significant progress.
- Redevelopment of City Property – The June 2019 report, suggested pursuing the redevelopment of city properties, and would require issuing an RFP for public-private partnerships, and contracting with industry expertise to evaluate proposals; this project has not made significant progress.
- Hotel Development – The June 2019 plan suggests working on a project that would be compatible with South Pasadena's historic, walkable character; this project has not made significant progress.

Fiscal Impact

The recommended action is for the Finance Commission to receive and file this report. There is no direct fiscal impact at this time, other than staff time preparing the report.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

Attachment


June 19, 2019 Staff Report – Adoption of Long-Term Financial Sustainability Strategy



City Council Agenda Report

ITEM NO. 14

DATE: June 19, 2019

FROM: Stephanie DeWolfe, City Manager 

PREPARED BY: John Pope, Public Information Officer
Craig Koehler, Finance Director
Lucy Demirjian, Assistant to the City Manager

SUBJECT: Adoption of the Long-Term Financial Sustainability Strategy

Recommendation

It is recommended that the City Council adopt the Long-Term Financial Sustainability Strategy.

Commission Review and Recommendation

On May 23, 2019, the Financial Sustainability Strategy was presented to the Finance Commission for comment and they recommended unanimously that the City Council approve the plan.

Executive Summary

On May 15, 2019 City staff presented a long range financial sustainability plan requesting the City Council approve in concept before finalizing a financial sustainability strategy. The Council voted unanimously to approve the plan in concept and directed staff to present the strategy to the Finance Commission for further review and recommendation. On May 23, 2019 the Finance commission recommended the City Council approve the plan.

Discussion/Analysis

The City faces significant challenges in both short- and long-term financial sustainability. With expenses increasing every year, but flat or declining revenues, the current structure of services is not sustainable. The costs of staffing rise every year along with the costs of materials and professional services. However, revenue sources are not rising at an equal rate, creating a structural deficit in the future. Property tax increases are minimal, UUT revenues are declining, and sales tax revenue is flat or declining. Without new revenue sources, the City will be forced to function with significantly less staff, requiring the downsizing or elimination of programs and services. Expense reduction strategies alone would require additional cuts every year, creating a compounding impact. Several revenue enhancement alternatives scored high in popularity in a recent community survey, including redevelopment of city properties, the facilitation of a small hotel and implementation of a hotel tax, and the consideration of a local sales tax measure.

Revenue

Property Tax

The city's primary source of revenue is property taxes at 54% of General Fund dollars. While property values are strong in South Pasadena, increases in revenue to the City are only realized when properties are sold and reassessed. The City has seen increases of only 4-6% in property tax in recent years, a lower-than-average rate due in part to the relatively low turnover rate of properties in South Pasadena. With housing prices flattening this year, this increase may be less in future years than in recent history.

Utility User Tax

Utility User Tax (UUT) is the second largest source of revenue to the General Fund at roughly 12% or \$3.4 million. UUT is a diminishing resource as the public continues to reduce the amount of utilities that are taxed. For example, many households no longer subscribe to cable television, have reduced their water usage through conservation, and use only cell phones instead of landlines. All of these lifestyle changes result in less tax revenue to the City. UUT once constituted 15% of the General Fund, has fallen to 13%, and is projected to continue to decline in the future. The UUT will sunset in 2022 unless renewed by voters on the ballot in 2020. The loss of these dollars would require a significant reduction in staffing and elimination of services on top of the existing budget deficit.

Sales Tax

Sales tax is the third largest source of revenue to the General Fund at approximately 8%. South Pasadena's business districts have struggled to sustain a vibrant mix of businesses and a full range of services and amenities to serve local residents. As a result, residents often travel to neighboring cities for dining, shopping and entertainment, leaving sales tax revenue to the City flat in most years. Economic development programs can serve to strengthen the City's business districts and enhance sales tax revenue through branding and marketing, business recruitment outreach, tenant mix strategies, streetscape improvements, parking and signage strategies, and overall visioning for the districts. In addition, the City currently does not levy a local sales tax, but receives an allocated portion of taxes levied by the State and County. The City could levy a local sales tax through a ballot measure of up to $\frac{3}{4}$ of a cent. Revenue from this new tax would return 100% to the City.

User Fees

User fees are another significant source of revenue to the General Fund at roughly 4%. Until last year when a CPI increase was adopted, the City's fees had not increased in almost a decade. While tax revenue pays for core services that are not directly charged, such as law enforcement, infrastructure, and city administration, user fees pay for services selected by individual residents. For example, user fees are charged for land use applications and recreation programs, services that directly benefit the user. State law allows municipal governments to charge the full cost of the service, but not more. User fees are updated and approved by City Council annually through the adoption of the Fee Schedule. The City is currently reviewing all user fees to ensure the City is recovering an appropriate, if not full, amount of costs from users. While the additional revenue

will help reduce the deficit somewhat, fee increases alone cannot offset the significant budget shortfall.

Expenses

The single largest cost to any city is the cost of personnel. People are the City's greatest asset and make the delivery of high quality services possible. Costs for personnel include salary, medical benefits, pension costs, and training.

Employee Compensation

South Pasadena employees have not received salary increases over the last two years and received only marginal increases in prior years. A current survey of compensation among comparable small cities in the San Gabriel Valley revealed that most South Pasadena employees are currently paid 10% - 30% below average. The impact of poor compensation has been reflected in high turnover rates and positions going unfilled due to lack of applicants. Staffing has had to be adjusted to reduce services in many areas, including the Police Department, as a result. The high costs of turnover include loss of institutional knowledge, work stoppage, reduced quality of customer service, and larger investments in recruitment, background checks and training of new employees. Further, in some cases the City has had to use contract employees at a much higher rate than an adequately compensated regular employee. The City must negotiate new contracts with all labor groups for the period beginning July 1, 2019, and compensation has been raised as a significant issue that must be addressed. Not only must current salaries and benefits be adjusted to recruit and retain qualified staff, a financial sustainability model must include annual consideration of inflation in order to maintain a reasonable market position.

State Pension Obligations

Increased demands from CalPERS have also added significant costs. The State's pension fund lost almost 35% of its value during the recession and has been unable to achieve return rates assumed in the pro forma. As with pension programs across the Country, PERS has also found other fundamental assumptions to be unsustainable. For example, retirees are living much longer than originally planned and are pulling benefits for at least a decade longer than anticipated. This is the same issue faced by Social Security and most State pension plans created in the early 20th Century. Currently, funded at just under 70%, PERS is aiming to bring fund balances closer to 90-95%. With few other options, PERS has mandated huge payments from member cities to cover unfunded liability. Pension reforms have been enacted at the State level to reduce future liability, but those changes will not be fully realized for another 20 years. In the meantime, nearly every city in the State is struggling to fund the increases, with experts estimating many small cities will go bankrupt as a result.

South Pasadena offers the lowest possible pension formula (2% at 55) which has kept the City's liability low compared to Cities who pay 2.5%, 2.7% or even 3.0% at 55. Nonetheless, the City must bear the cost of increased payments to PERS over the next five years at least. Further, it remains unclear how PERS management decisions will impact the City in the future. Investment funds continue to perform far below projected returns and actuarial reports from PERS are

several years behind. Many cities are hiring independent actuarial consultants to better analyze future impacts and plan appropriate strategies.

Streets and Infrastructure

Maintenance of City infrastructure is a significant cost burden to the City as well. Since 2012, the City has invested \$2 million or more each year in General Fund revenues to repair streets and roads. The uncharacteristically large General Fund infusion came after many years of deferred maintenance and strong demands from residents to better maintain the roads. Continuing this high rate of funding has had a significant impact to the General Fund. However, much deferred maintenance remains, and it continues to be one of the top priorities of residents. Further capital expenses must be made in city buildings, parks, and facilities, many of which are aging and in need of repair. A Capital Improvement Program, first prepared last year and updated this year, lists more than \$150 million in capital needs, with funding available for less than half. While only a portion of funding will need to come from the General Fund (the majority paid through grants), it remains a significant cost factor in future budgets.

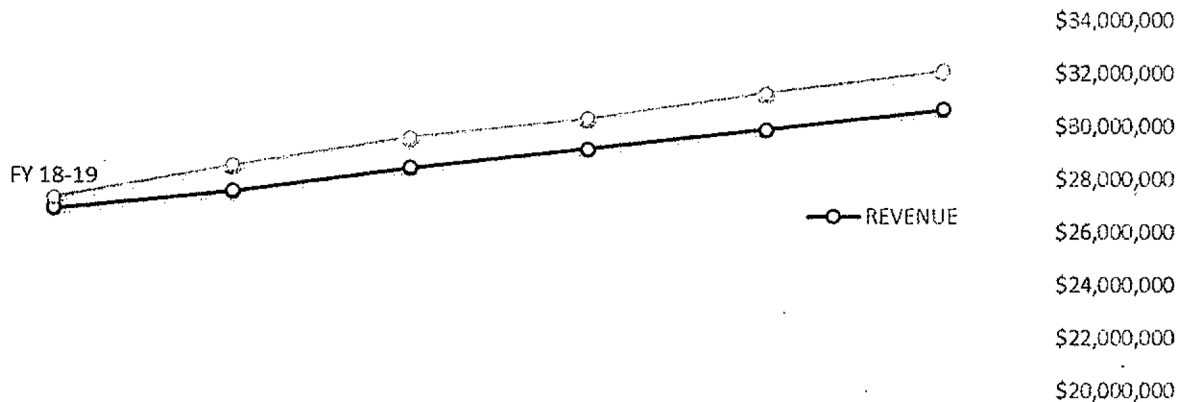
Technology and Advancement

Finally, the City must also plan for the evolution of technology, services and amenities. To remain relevant and meet the demands of its customers, an organization must keep pace with trends in customer service. This often requires investments in technology and/or new programs and services. For example, many cities now have a customer service smartphone application that allows residents to snap a photo of an issue or concern and send it to the City with one click. This streamlines the service request process for residents and creates a clear tracking systems for staff to ensure timely response. Customers consistently ask for such an app, frequently citing the benefits after having seen one in a neighboring city. While the benefits are undeniable, the costs of developing and maintaining this kind of new technology are considerable and must be factored into future budgets.

Budget Shortfall

A five-year forecast incorporating estimates for the four expense categories described above identifies a budget shortfall of over \$1 million in FY19-20 increasing to almost \$2 million in five years. This estimate includes minimal increases in compensation for personnel and maintains the \$2 million in General Fund revenue directed to capital projects, as well as limited funding for new initiatives such as economic development. It does not include the results of labor negotiations (pending) or additional undefined increases in PERS mandates. The chart below illustrates structural budget issues with expenses exceeding revenue for the next five years:

Five Year Revenue and Expense Trend



This model assumes that the UUT remains at same rate but does not account for any of the potential revenue enhancement options identified in this report.

Options

While budget reductions may be considered as part of a final strategy, budget reductions alone cannot resolve future sustainability issues. Additional revenue sources must be identified to maintain city services.

In anticipation of community conversation regarding potential revenue enhancements, staff assembled a list of frequently discussed options. During the months of March and April, seven meetings were held with residents and three with staff to present the budget forecast and obtain feedback on potential solutions. The options presented to residents included land use considerations and new taxes.

Budget cuts were also discussed. However, during the discussion of repeal of the UUT earlier this year, residents made clear that revenue enhancements were preferred to elimination of services and personnel. As such, staff focused largely on revenue enhancements when looking at future sustainability. Further, budget cuts would only delay the inevitable. Costs will continue to increase over time due to inflation, regardless of flat or declining revenue. The City could not continue cutting services year after year and still provide a full range of services and State mandates.

The following potential revenue sources were presented to the community for discussion along with rough estimates and timing for revenue generation:

Land Use and Administrative Options

FY	19-20	20-21	21-22	22-23	23-24
BUSINESS DISTRICT PARKING METERS	\$245K	\$245K	\$245K	\$245K	\$245K
RETAIL CANNABIS STORE	\$0	\$48K	\$48K	\$48K	\$48K
SHORT-TERM RENTALS	\$0	\$50K	\$50K	\$50K	\$50K
SMALL HOTEL	\$0	\$0	\$0	\$0	\$700K
USER FEE STUDY	\$150K	\$152K	\$155K	\$158K	\$161K

Citywide Taxes

FY	19-20	20-21	21-22	22-23	23-24
Increase City Sales Tax (by ¼ of a cent)	\$0	\$1.5 M	\$1.5 M	\$1.5 M	\$1.5 M
Public Safety Parcel Tax (\$24-384 per parcel)	\$0	\$957K	\$957K	\$957K	\$957K

Approximately 350 residents responded to an informal survey via a website or completed hard copies at a community meeting. Several solutions were shown to be more popular:

Redevelopment of City Properties

The redevelopment of city properties (Arroyo & city parking lots) received the highest support rating, both with over 87%. During meetings, residents expressed concern with the current facilities in the Arroyo and were supportive of the possibility of creating better amenities that would also generate more revenue to the City. Likewise, residents voiced support for developing city-owned parking lots as long as the parking was replaced. A determination of how much revenue could be generated through these projects requires further study by experts in real estate and recreational amenities. While staff has completed preliminary inquiries into feasibility with positive results, a formal RFP could be issued to recruit interested parties and determine the field of possible partners and projects.

Development of a Small Hotel

The second most popular option, with just over 83% support, is the development and taxation of a small hotel. South Pasadena currently has several Bed & Breakfast Inns, but does not offer any hotels. Residents verbalized the need for a local hotel to serve both business and personal/family needs, citing their frustration in sending people to Pasadena or other surrounding cities when necessary. The revenue to the City from a hotel would include sales tax on restaurant and bar services, as well as hotel rooms, plus the revenue from the hotel tax. Hotel taxes are levied by most cities including Pasadena and Los Angeles. Depending on the room rate and number of rooms, the hotel tax could generate more than \$500,000 annually once rates and occupancy reach peak. The City could encourage the development of a hotel by completing a hospitality study and marketing the City's interest in partnering with a quality hotel flag. A hotel tax would then be placed on the ballot for approval by residents.

Short-term Rentals

Coming in third place was the legalization and taxation of short-term rentals, with just over 71% support. Short-term rentals are currently prohibited in South Pasadena, however as with most cities who chose to prohibit them, they proliferate anyway. It is extremely difficult and expensive to enforce against them and most cities do not have the resources to do so. A quick search on a given day may reveal more than 50 sites in South Pasadena just on AirBnB. There are many other short-term rental sites now operating, so the total available in the City is difficult to estimate. If legalized, a hotel tax could also be applied to these rentals. A conservative estimate of revenue for 50 properties with a limited number of room nights is about \$50,000 annually. To effect this revenue, the Zoning Code would have to be changed to permit short-term rentals and the hotel tax would have to be approved on a ballot.

Retail Cannabis & Parking Meters

The legalization and taxation of cannabis and the installation of parking meters both scored significantly lower at 43% and 40% respectively. Residents strongly expressed their reservations about both of these initiatives during public forums.

Tax Measures

Of the two tax measures, the sales tax measure received considerably more support, at almost 65%, while the public safety parcel tax received just under 45% support. Similar sales tax measures have been adopted, or are being proposed, by many cities in the San Gabriel Valley. HdL, the City's sales tax manager, has estimated a return of approximately \$1.5 million in annual revenues from this tax. With the County and AQMD considering additional sales tax measures in the near future, and only $\frac{3}{4}$ cent available before reaching the allowable cap, it makes sense for cities to collect this revenue and keep it local before it is lost to the County. The City is currently conducting an annual survey which will help to determine if there is broad community support for this measure.

Economic Development

Investment in economic development is also a critical strategy to increase sales tax revenue. Recent data show the City has experienced lower rates of sales tax growth than either Los Angeles County or the State, and lower than many surrounding communities. Further, studies show that the city has opportunities to capture business that is currently being diverted to other shopping areas. Investments in more vibrant business districts would engender better sustainability for small businesses that characterize South Pasadena, would create more local amenities for residents, and would ultimately result in more revenue to support City services. This item was not included in the survey as a specific initiative, but was raised by many community members and local businesses as a high priority.

Financial Sustainability Strategies

The following implementation measures are proposed for discussion:

1. Local Sales Tax Measure

Pending the results of the current community survey, staff anticipates recommending Council action to place a measure on the November 2019 ballot for the levy of a local sales tax measure of $\frac{3}{4}$ cent. Once survey data is complete, staff will return with a full analysis and recommendation. If approved on the ballot in November, revenues would begin to accrue in January, 2020.

This revenue stream would close the budget gap for the next several years by supporting increased investment in human capital, and allowing current service levels and infrastructure investment to continue, along with limited investment in strategic initiatives such as technology. It is not sufficient to maintain services in the long term unless it increases over time due to expansion of tax generating businesses.

If the tax is not passed by residents, there would be no funding for adequate compensation in the short term and the City would be faced with significant challenges in filling critical positions such as police officer and firefighter/paramedic. Service reductions and personnel restructuring have already begun as a result of unfilled vacancies and would continue as additional positions became vacant.

2. Investment in Economic Development

Per the current Strategic Plan, City Staff have been reorganized to create a focus team working to develop an economic development strategy to guide future investment. A number of economic development initiatives were also recently identified and adopted in the City's 2019-20 Strategic Plan, including: a branding/marketing plan, a parking management plan, a promotional video, and a permit streamlining guide. All of these items have been included in the proposed FY19-20 Annual Budget for City Council review and approval in June.

3. Redevelopment of City Properties

Pursuing the redevelopment of City properties would require issuing an RFP for public-private partners and contracting with industry expertise to evaluate proposals and revenue to the City. While it is unclear how much revenue would be generated and when, it is worthwhile to begin the process of engaging potential partners now to ensure the best return in future years. Funding for support of this process has been included in the proposed FY19-20 Annual Budget for City Council review and approval in June.

4. Hotel Development

A professional hospitality market study would aid staff in recruiting potential hotel developers to partner with local land owners on a project that would be compatible with South Pasadena's historic, walkable character. Funding for this study has been included in the proposed FY19-20 Annual Budget for City Council review and approval in June.

5. PERS Actuarial Consultant

Because of the uncertainties of future PERS actions and impacts to the City, the professional services of an independent actuarial will provide the City with more clarity in planning for the future. A multitude of consultants are available to provide expert services in analyzing potential future impacts and future funding strategies such as Section 115 Trusts, and pre-funding through loans. Staff anticipates issuing a Request for Proposals to solicit appropriate services. Funding for this work is available in City reserves set aside for this purpose.

6. Utility User Tax

To maintain current service levels, the City will need to maintain the UUT past the sunset date of 2022. However, with the projected decline in UUT revenue, the City will still have a structural deficit in future years, even if combined with the proposed new sales tax. The City will need to consider how to approach the renewal of the UUT on the November 2020 ballot and review alternatives that will generate a more sustainable revenue source. As with past financial issues, a Council subcommittee could be established to begin consideration of this important issue in conjunction with the Finance Commission. In addition to revenue alternatives, a robust community engagement program will be necessary on this critical issue.

7. Items Not Recommended

Staff does not recommend pursuing the legalization of short-term rentals at this time due to the large amount of staff work required and the relatively small amount of revenue. The Planning Department work plan is already overburdened and cannot accommodate this task in FY19-20.

This could be further considered in future years when there are not pressing housing issues and a pending General Plan. In addition, staff does not recommend pursuing parking meters or retail cannabis as a result of the lower levels of community support.

Next Steps

1. Implementation of initiatives adopted in the FY19-20 Annual Budget will begin immediately upon the beginning of the new fiscal year;
2. Staff will return to Council with further contracts and recommendations in accordance with Council direction.

Legal Review

The City Attorney has not reviewed this item.

Fiscal Impact

Funding has been identified for all proposed action items, either in the proposed FY19-20 Annual Budget or in appropriate reserve accounts. Pursuit of these initiatives will support future financial sustainability of the City and therefore the continuation of critical city services such as public safety, street maintenance, and library and community services.

Environmental Analysis

This item is exempt from any California Environmental Quality Act.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

**City of South Pasadena Finance Commission
Minutes for Special Meeting of:
March 4, 2021 6:30 P.M.**

Broadcast via ZOOM conference call.

- I. Roll Call
 - Commission Chair Findley – Present
 - Commission Vice-Chair Tao – Present
 - Commissioner Choi – Present
 - Commissioner Elsner – Present
 - Commissioner Wood – Present
 - City Treasurer Pia – Present
 - City Council Liaison Donovan – Present
 - Interim Assistant City Manager Aguilar – Present
 - Finance Manager Trinh - Present
 - Accounting Manager Trashian - Present
- II. Public Comment - None
- III. Action/Discussion
- IV. Fiscal Year 2020/2021 Budget & CIP
 - i. Motion by Commissioner Elsner to approve FY2020-2021 Budget & CIP Draft Budget for Council Review, Second by Commissioner Wood, Approved 5-0.
- V. Selection of the Chair and Vice Chair of the Finance Commission
 - i. Nomination by Commissioner Choi to appoint Commissioner Elsner as Finance Commission Chair, Second by Commission Chair Findley, Approved 5-0
 - ii. Nomination by Commissioner Elsner to appoint Commissioner Choi as Finance Commission Vice Chair, Second by Commission Chair Findley, Approved 5-0
 2. Report from the Finance Ad Hoc Committee
 3. Approval of Minutes from the January 28, 2021 Minutes
 - i. Amendment by Commissioner Tao on Roll Call
 - ii. Motion by Commissioner Wood to approve Minutes for the January 28, 2021 Meeting, Second by Commissioner Elsner, Approved 5-0.
- VI. Communications
 1. City Council Liaison – Jack Donovan
 - i. Update on Seven Patios Mixed-Use Residential and Commercial Project

Next regular meeting – March 25, 2021

Meeting Adjourned at 7:53 PM