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## TITLE

Fiscal & Budgetary Policy Changes

## RECOMMENDATION

Recommend Council approval of changes to the following Fiscal & Budgetary Policies: Reserves, Renovation and Replacement Fund, and Pension Stabilization Fund.

## BACKGROUND & ANALYSIS

In 2023, the City Council authorized the establishment of five new reserve funds, each with a clearly defined purpose. These funds replaced the broadly scoped Capital Projects Reserve and Economic Development Reserves. The newly created funds are:

- Parks Renovation and Replacement Fund: Dedicated to planned repairs and replacements for City parks and medians.
- Streets Renovation and Replacement Fund: Supports road asset repairs and replacements not covered by existing Gas Tax or Road Measures.
- Civic Facilities Renovation and Replacement Fund: Allocated for major repairs to buildings and structures beyond routine maintenance.
- Public Safety Facilities Renovation and Replacement Fund: Reserved for significant repairs to the Public Safety Building at 911 Donaldson Way.
- Pension Stabilization Fund: Designed to assist with Unfunded Accrued Liability (UAL) payments during budget cycles when the City cannot meet the obligation.

These funds were initially established using a one-time sales tax recovery and transfers from the eliminated reserves. This discussion is to seek direction and further clarify the funding strategies to ensure these reserves remain sustainable sources for capital improvement projects involving major renovations and replacements. Also for discussion is the appropriation of year end surpluses should they exist at the end of any Fiscal Year.

Enterprise fund infrastructure is excluded from this Policy as the enterprise funds have established their respective capital replacement component within their corresponding rate structures.

### Capital Renovation and Replacement Program

This program encompasses a broad range of asset repairs and replacements—such as roofing, HVAC

systems, structures, roads, and playground equipment—intended to extend the service life of City assets.

### **Funding Strategies**

To ensure efficient and cost-effective management of the City's capital assets, periodic assessments will be conducted to evaluate asset life expectancy and identify repair or replacement needs over a five-year horizon.

#### **Parks R&R:**

Projects will be identified during the budget process and incorporated into the City's five-year Capital Improvement Plan (CIP). Transfers from the General Fund will be made as resources allow. If a prior-year surplus is available, the City Council may authorize additional transfers. The FY 2024–25 depreciation expense for park assets is \$395,587—ideally, this amount should be allocated to the fund or a percentage thereof.

#### **Streets R&R:**

Similar to Parks R&R, projects will be budgeted and included in the CIP. General Fund transfers will be made as feasible, with potential surplus allocations subject to Council approval. FY 2024–25 depreciation for street assets is \$2.1 million.

#### **Civic Facilities R&R:**

Major projects will be planned through the budget and CIP process. Transfers from the General Fund and surplus allocations may be approved by the Council. FY 2024–25 depreciation for civic facilities is \$1.1 million.

#### **Public Safety Building R&R:**

Projects will follow the same planning and funding process. The building's depreciation is included in the \$1.1 million noted above.

#### **Pension Stabilization Fund:**

The City saves approximately 3% annually by paying its UAL to CalPERS in a lump sum. Up to the amount of this savings may be set aside from the same fund sources that pay the UAL, subject to budget availability. The FY 2025-26 prepayment savings were \$31,673. Surplus funds may also be transferred with Council approval.

### **Implementation**

Estimating appropriate reserve levels for asset renovation and replacement depends on asset type and funding mechanisms. Planning must include:

- Forecasting long-term rehabilitation and replacement needs
- Estimating annual funding requirements over the asset's life
- Using consistent methodologies based on asset management plans, fixed asset inventory values,

depreciation expenses, historical maintenance costs, or a combination thereof

Calculations will be performed during the budget process or year-end closing.

#### Permitted Uses of R&R Funds

Funds may only be used for:

- Restoring an asset to full service or capacity
- Capital renewal and repairs
- Cost to enhance the value of an asset
- Planned preventative maintenance exceeding \$50,000

Funds may not be used for non-capital expenditures, inventory purchases, or services related to non-City-owned assets. Use for new infrastructure acquisition or construction requires City Manager approval.

Periodic reviews will be performed to assess fund levels. If any fund exceeds operational needs, excess amounts may be reallocated through the budget process with Council approval. Attached are Fiscal and Budgetary Policies with redline edits to policy #3 (Reserves/Unallocated Funds).

#### **ATTACHMENTS:**

[Fiscal and Budgetary Policies Redline](#)