



TITLE

Fiscal and Budgetary Policies Update

RECOMMENDATION

Adopt a resolution approving amendments to the Fiscal and Budgetary Policies to update Section 3 (Reserves/Unallocated Funds).

CONTACT

Jemelyn Cruz, Finance Director

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 and were initially established using a one-time sales tax recovery and transfers from the eliminated reserves. The newly created funds are:

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

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 Renovation and Replacement:

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.

Streets Renovation and Replacement:

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.

Civic Facilities Renovation and Replacement:

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.

Public Safety Building Renovation and Replacement:

Projects will follow the same planning and fund process.

Pension Stabilization Fund:

The City saved 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).

COUNCIL PRIORITY PROGRAMS AND PROJECTS

Organizational Effectiveness: "Deliver exemplary government services."

FISCAL IMPACT

Memorializing the funding policy for the Renovation and Replacement Funds establishes clear standards for monitoring and analyzing the City's infrastructure conditions, ensuring that ongoing investments remain current, well-maintained, and safe.

Formalizing the funding approach for the Pension Stabilization Fund—by setting aside a portion of the savings generated from making the annual UAL prepayment—will help ensure resources are available in future years when UAL obligations exceed projections.

ENVIRONMENTAL REVIEW

None

COMMUNICATION

Level 0: No Further Public Communication Needed

ATTACHMENTS:

- [1. Resolution - Fiscal Policy R&R Funding](#)
- [2. Fiscal and Budgetary Policies Section 3 - Redline](#)