ROCKLIN
CALIFORNIA

City Council Staff Report

Subject: Key Management Practices Update

Date: February 14, 2023

Submitted By: Daniel Choe, Deputy Director of Administrative Services

Department: Administrative Services - Finance

Recommendation:
Receive an Update on Proposed Changes to the City's Key Management Practices, and Provide Direction to Staff.

Background:
Reserves are an important tool for managing fiscal sustainability, enabling the City to avoid counterproductive tax increases or service cuts. Having set aside funds and policies provide protection from risk and help weather economic volatility and other emergencies.

Utilizing the Key Management Practices (KMPs), the City established certain reserve funds, and has been annually allocating resources through the City's budget process. Also, if and when general fund surplus materialized, those resources have been used to fund reserves at year-end. These practices have helped the City further reduce its liabilities and strengthened the organization's financial health.

The current KMPs enable a prudent practices of setting aside reserves; however, during a recent review, staff identified opportunities for the improvement of the City's current reserve policy and use of its surplus in an effort to ensure funds are systematically set aside, and are appropriate for the City of Rocklin.

Regarding reserve levels, the staff recommended changes, which are identified in the table on the next page, are consistent with the Government Finance Officers Association best practices to set a target level of reserves to better accomplish the purpose of reserve funds and limit contributions that are no longer required.

Reserve	Minimum Target	Maximum Target
General Fund Operating Reserve	25% of planned operating expenditures	Undefined
Building Reserve	Undefined	Undefined
Economic Reserve	Undefined	Undefined
Fleet Capital Reserve	Value of fleet replacement needs for next five years	Total purchase value of fleet assets
Pension Liability	80% funded status based on the most recent valuation report	100% funded status based on the most recent valuation report
Retiree Health Fund	80% funded status based on the most recent valuation report	100% funded status based on the most recent valuation report

In addition to the reserve levels identified in the table above, recommended changes to KMPs language defining certain reserves are highlighted in the ensuing section. The changes are intended to set reserve target levels where appropriate and provide clarity in use of General Fund surplus.

General Fund Operating Reserve

The City will maintain an operating reserve ~~equal~~ in the General Fund equivalent to, at a minimum, 25% of the planned budgeted operating expenditures ~~in the General Fund (less any capital equipment and/or project budget)~~. These reserved dollars will be used to support unforeseen emergencies, operating insufficiencies and short-term internal loans. Management will exercise every mechanism available (e.g., budget cuts, hiring freezes, etc.) to avoid use of the reserve. To the extend the reserve level falls below 25%, a plan will be developed and executed to replenish the reserve at the targeted funding level within three years.

Disaster Contingency Reserve (no changes recommended)

The City will maintain an emergency reserve equal to $1 million as set by Resolution 2012-136. These reserved dollars will be used in the event of a "declared emergency" providing financial support for recovery efforts as directed by the City Council.

Self-Insured Losses Reserve (no changes recommended)

The City of Rocklin will maintain a self-insured losses reserve equal to $2 million. These reserved dollars will be used for losses not covered by under existing insurance programs.

Retiree's Health Fund

The City will maintain a Retiree's Health Fund, which will be used to fund the Retiree's Health Trust to offset retirees' health accrued liability. ~~Additionally, the Retirees' Health Fund will be partially funded by annual transfers in of 5% of the General Fund's current fiscal year's fund balance unreserved surplus.~~

Fleet Capital Reserve (no changes recommended)

The City will maintain Fleet Capital Reserve in the Fleet Fund for the purchase of new and replacement vehicles and other capital assets. Reserve amount will be expended to each Operating Fund Division based upon the vehicles assigned. These amounts will be calculated utilizing the annual asset depreciation expense and allocated through a modified Fleet Allocation process. In the case where funds reserved in the Fleet Fund for particular asset to be replaced, or an additional new asset to be purchased, are insufficient to cover the entire cost of the asset, additional amounts will be expensed to the appropriate Operating Division in

that year.

Building Reserve

The City will maintain Building Reserve to fund capital maintenance projects to sustain existing City facilities or to support the expansion of existing city facilities to address the workforce needs of city services.

General Fund - ~~Special Reserve Fund~~ Use of Surplus

i. In the event the General Fund realizes surplus, after calculating the ~~25%~~ General Fund Operating Reserve target, ~~75%~~ remaining General Fund surplus (net amount by which the ~~unreserved~~ unassigned fund balance is increased in that fiscal year) , in the amount not to exceed 5% of the current fiscal year's revenue budget, will be ~~split between~~ assigned as outlined below. Priority will be given to those items that relieve budget or financial operating pressure in future periods. ~~GF-Economic Reserve Fund (10%), GF Building Reserve (20%), Retiree's Health Fund (5%), Fleet Reserve Fund (20%), City Council Community Fund (10%), and a payment towards the City's unfunded pension liability (35%).~~
    1. Fund long-term accrued liabilities, including but not limited to debt service, pension liability, and retiree's health benefits (e.g. Other Post Employment Benefits liability, Section 115 Trust);
    2. Provide funding for the Economic Reserve Fund;
    3. Increase the contributions needed to fund the Fleet Capital Reserve
    4. Provide funding for the Building Reserve; and
    5. Surplus funds in excess of the minimum reserve targets and requirements in this section can be used for other specific purposes consistent with the General Fund - Use of Surplus.
ii. After calculating (i), any remaining General Fund surplus may be used in the following ways provided that such action is approved by the City Council:
    1. Increase the contributions needed to fund one-time expenditures.
    2. Start-up expenditures for new programs or construction and is considered in the context of multi-year projections of revenue and expenditures.
iii. Any remaining General Fund surplus shall be added to its unassigned fund balance.

~~Unfunded Pension Liability Reduction~~

~~An additional 1% will be added to the employer rate of unfunded pension liability which will be used to pay down the City's unfunded pension liability. In additional, after all General Fund Special Reserve Fund transfers, if it is determined that the projected (current) fiscal year will have an increase in the General Fund unassigned (unreserved) Fund Balance, 50% of this increase will be used to pay down the City's unfunded pension liability. This transfer of funds will occur during the budget process following each year in which an increase occurs.~~

Monitoring Performance (new section recommended to be added)

The City will review the current and five-year projected reserve to ensure that they are appropriate given the economic and financial risk factors the City is subject to on an annual basis during the City's budget process.

Staff recommends the City Council provide direction on the recommended changes to the KMPs. Direction provided on the recommended changes, including any other City Council directed changes, will be reflected in the Fiscal Year 2023/24 Operating Budget document.