



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** March 17, 2009  
**TO:** Finance Committee  
**FROM:** Administration Division, Finance Department  
**SUBJECT:** Review Of Financial And Reserve Policies

### **RECOMMENDATION:**

That the Finance Committee continue discussion of the City's financial and reserve policies and the related recommendations of the Infrastructure Financing Task Force.

### **DISCUSSION:**

On March 3<sup>rd</sup> the Committee briefly began a review of the City's reserve and financial policies as first established in 1995 by the adoption of Resolution Nos. 95-156 and 95-157 and the associated recommendations of the Infrastructure Financing Task Force (IFT). Staff distributed copies of the 1995 resolutions, the recommendations of the IFT and extensive information compiled by the rating agency Moody's Investors Service (Moody's) on the reserve levels of California cities. The Moody's information presents cities' fund balances (reserves) over a multi-year period and provides a benchmark against which we can compare our reserve levels.

At this meeting, staff would like to focus specifically on the reserve policy and whether the current policy should be amended or reaffirmed in its current form. Staff will present summarized information extracted from the Moody's data as well as survey results on the adopted reserve policies of other California cities.

As the Committee knows, the 1995 reserve policy calls for maintaining a reserve equal to 25% of the operating budget. The 25% is comprised of an emergency reserve of 15% and a budget reserve of 10%. In addition, the policy calls for a General Fund capital reserve of \$1 million. Both the emergency reserve (~\$16.5 million) and the capital reserve are fully funded to policy levels. The budget reserve, which under the policy should be at approximately \$10.5 million, currently stands at just less than \$1 million.

When reviewing the reserve policy, it is important to understand that the City's financial practices have changed in a number of important ways since 1995. For example, several years ago, the City started fully funding depreciation on all vehicles, including expensive fire apparatus. Until this change, vehicle replacement was funded strictly on a pay-as-you-go basis. Now, each department is required to budget "rent" for each of their vehicles. The rent proceeds are set aside so that when the time comes to replace the vehicle, the replacement is fully funded. These vehicle replacement reserves are maintained in a separate vehicle replacement fund – not the General Fund - and have not been counted

as part of the General Fund's available reserves despite the fact that they really are. The General Fund's vehicle replacement reserve currently stands at approximately \$1.5 million. At the time the reserve policy was established, there was no such vehicle replacement reserve and the General Fund reserves were expected to cover this contingency as well.

There are other examples of changed financial practices that are worth noting and staff will go over those at the meeting. And although staff will not be seeking any decisions or formal direction from the Committee at this meeting, some preliminary staff recommendations will be presented to the Committee for consideration including reserve levels, ways to restore reserves to full policy levels and ways to establish increased capital funding.

**SUBMITTED BY:** Robert D. Peirson, Finance Director

**APPROVED BY:** City Administrator's Office