

CITY OF RANCHO MIRAGE



STAFF REPORT

TO: City Council

DATE: March 10, 2015

FROM: Isaiah Hagerman, Finance Director

SUBJECT: General Fund Reserve Balances

SPECIFIC REQUEST OR RECOMMENDATION:

Consideration of Resolution No. 2015-__, approving commitment of certain reserves for specified purposes consistent with the fund balance policy

JUSTIFICATION OR INFORMATION:

Annually the Budget Subcommittee, which consists of Mayor Pro Tem Hobart and Councilman Kite, and staff performs a review of the General Fund reserves, in accordance with the City's Fund Balance Policy and professional standards set by the Governmental Accounting Standards Board (GASB). Funds may be committed by City Council. Funds may also be uncommitted by either fulfilling the commitment or by resolution approved by City Council. Each commitment of fund balance must meet a specific level of specificity to be classified as committed fund balance. Currently, City Council has established seven reserves for the General Fund: Prudent Reserve, Disaster Recovery Reserve, Capital Projects Reserve, Economic Development Reserve, Ritz Spa Suite Reserve, Section 19 Water Reserve, and the Rancho Mirage Public Library Reserve.

Based on the review, a reduction of \$4,000,000 in the Disaster Recovery Reserve and a reduction of \$3,600,000 in the Economic Development Reserve are being requested. All other reserves will stay at their current amounts.

The reductions in the Disaster Recovery and Economic Development reserves will free up fund balance to ensure the City has sufficient unassigned fund balance. Unassigned fund balance is used to account for any remaining fund balance that isn't reserved for a specific purpose. Unassigned fund balance was significantly reduced to make the General Fund's share of the CalPERS pension payment. In addition, the City Council will be considering the use of unassigned fund balance to retire the 2005A Lease Revenue Bonds. The table below summarizes the recent history of our reserves.

City Council Action:

Approved as Requested: _____

Referred to: _____

AGENDA ITEM #

Approved as Amended: _____

For: _____

Denied: _____

Cont. to Agenda of: _____

Other: _____

Hearing Set: _____

JUSTIFICATION OR INFORMATION CONTINUED:

Reserve Name	Original Reserve Amount (May 2013)	Current Amount	Requested Change
Prudent Reserve	25,000,000	25,000,000	N/A
Disaster Recovery	15,000,000	15,000,000	11,000,000
Capital Projects	10,000,000	7,513,333	N/A
Economic Development	5,000,000	5,000,000	1,400,000
Ritz Spa Suite Purchase	5,000,000	5,000,000	N/A
Section 19 Water	5,125,000	5,125,000	N/A
Library	5,000,000	3,789,805	N/A

The detail of each reserve is presented below.

Prudent Reserve:

The Prudent Reserve commitment is set aside for future revenue shortfalls that meet or exceed the following. If the state reduces future revenue streams or if economic conditions lead to a decline in total general fund revenues of 9% or more from the prior year total general fund revenue amount in any given fiscal year. The City may utilize the Prudent Reserve funds to maintain levels of service to the City and its residents.

Disaster Recovery:

The Disaster Recovery commitment covers the costs and losses as a result of a major earthquake and disasters that require the activation of the City's Emergency Operation Center (EOC) in accordance with California Emergency Services Act.

Capital Projects:

The Capital Project commitment set aside is for land, equipment replacement, information technology equipment and software, facility and infrastructure renovation, upgrade and acquisitions. This set aside can also be used for solar and other "green" projects.

Economic Development:

Due to the passage of AB X1 26 and the loss of the redevelopment agency funding for economic development projects and programs, the City has lost some funding for its economic development programs but the Economic

JUSTIFICATION OR INFORMATION CONTINUED:

Development commitment will be used to continue economic development efforts such as the Highway 111 Façade improvement and property upgrade program, as well as for incentive and acquisitions programs to encourage retail and hotel growth within the City.

Ritz Spa Suite Purchase:

The Ritz Spa Suite reserve will be committed for the purchase of the Spa Suite's according to Operating Covenant and amendments.

Section 19 Water:

The Section 19 Water reserve will be committed for deposit into an escrow account relating to costs of bringing water to section 19 for development purposes. In the event the actual amount required for deposit into the escrow account is less than the \$5.125 million commitment, the remaining amount will cease to be committed and revert back to unassigned fund balance.

City of Rancho Mirage Public Library:

It is anticipated the General Fund will eventually have to supplement the operating and capital costs of the Library Fund. The Library Fund commitment will be reserved for these costs.

RECOMMENDATION:

Approval of Resolution No. 2015-__, approving commitment of certain reserves for specified purposes consistent with the fund balance policy

ATTACHMENT:

- Resolution No. 2015-__, approving commitment of certain reserves for specified purposes consistent with the fund balance policy

RESOLUTION NO. 2015-___

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO MIRAGE APPROVING COMMITMENT OF CERTAIN RESERVES FOR SPECIFIED PURPOSES CONSISTENT WITH THE FUND BALANCE POLICY

WHEREAS, the Governmental Accounting Standards Board ("GASB") is the authoritative body that sets accounting principles for governmental agencies, including the City of Rancho Mirage; and

WHEREAS, GASB pronouncements comprise the majority of generally accepted accounting principles for governmental agencies; and

WHEREAS, GASB has issued Government Accounting Standards Board No. 54 Fund Balance Reporting and Governmental Fund Type Definitions ("Statement 54") which requires that governmental agencies change the categories and terminology used to describe the components of fund balance; and

WHEREAS, Statement 54 is designed to improve the reporting of fund balance and to establish a hierarchy of fund balance classifications based primarily on the extent to which governments are bound by constraints on resources reported in the funds; and

WHEREAS, the City Council approved the "Fund Balance Policy" with Resolution No. 2013-22 on May 16th, 2013 that is attached hereto as Exhibit "A" and incorporated herein by this reference, which policy comports with the requirements of Statement 54; and

WHEREAS, the Fund Balance Policy establishes the procedures for reporting, within the annual financial statements, unrestricted fund balance within the City's governmental funds; and

WHEREAS, the City Council later approved Resolution 2013-23, a copy of which is attached hereto and incorporated herein by this reference as Exhibit "B," which committed certain reserves for specific purposes in accordance with the Fund Balance Policy; and

WHEREAS, staff now proposes that the Disaster Recovery Reserve be reduced from \$15,000,000 to \$11,000,000 and the Economic Development Reserve be reduced from \$5,000,000 to \$1,400,000, keeping in place all other reserves approved by Resolution 2013-23.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF RANCHO MIRAGE DOES HEREBY RESOLVE, DECLARE, DETERMINE, AND ORDER AS FOLLOWS:

Section 1. Recitals.

That the Recitals set forth above are true and correct.

Section 2. Approval of Commitment of Certain Reserves for Specified Purposes Consistent with the Fund Balance Policy.

That the City Council hereby approve reductions in the Disaster Recovery Reserve from \$15,000,000 to \$11,000,000 and in the Economic Development Reserve from \$5,000,000 to \$1,400,000.

Section 3. Severability.

That should any provision, section, paragraph, sentence or word of this Resolution be rendered or declared invalid by any final court action in a court of competent jurisdiction or by reason of any preemptive legislation, the remaining provisions, sections, paragraphs, sentences or words of this Resolution as hereby adopted shall remain in full force and effect.

Section 4. Repeal of Conflicting Provisions.

That all the provisions heretofore adopted by the City Council that are in conflict with the provisions of this Resolution are hereby repealed.

Section 5. Effective Date.

That this Resolution shall take effect upon its adoption.

Section 6. Certification.

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

PASSED, APPROVED AND ADOPTED on this 10th day of March, 2015.

Iris M. Smotrich, Mayor

ATTEST:

Cynthia Scott, City Clerk

APPROVED AS TO FORM:

Steven B. Quintanilla,
City Attorney

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EXHIBIT "A"

FUND BALANCE POLICY RESOLUTION 2013-22

SEE ATTACHED

RESOLUTION NO. 2013-22

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO MIRAGE
ADOPTING THE FUND BALANCE POLICY.

WHEREAS, the Governmental Accounting Standards Board ("GASB") is the authoritative body that sets accounting principles for governmental agencies, including the City of Rancho Mirage; and

WHEREAS, GASB pronouncements comprise the majority of generally accepted accounting principles for governmental agencies; and

WHEREAS, GASB has issued Government Accounting Standards Board No. 54 Fund Balance Reporting and Governmental Fund Type Definitions ("Statement 54") which requires that governmental agencies change the categories and terminology used to describe the components of fund balance; and

WHEREAS, Statement 54 is designed to improve the reporting of fund balance and to establish a hierarchy of fund balance classifications based primarily on the extent to which governments are bound by constraints on resources reported in the funds; and

WHEREAS, the City Council has reviewed the Fund Balance Policy that is attached hereto as Exhibit "A" and incorporated herein by this reference, which policy comports with the requirements of Statement 54; and

WHEREAS, the Fund Balance Policy will establish the procedures for reporting, within the annual financial statements, unrestricted fund balance within the City's governmental funds.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF RANCHO MIRAGE DOES HEREBY RESOLVE, DECLARE, DETERMINE, AND ORDER AS FOLLOWS:

Section 1. Recitals.

That the Recitals set forth above are true and correct.

Section 2. Approval of Fund Balance Policy.

That the City Council hereby adopt the Fund Balance Policy.

Section 3. Severability.

That should any provision, section, paragraph, sentence or word of this Resolution be rendered or declared invalid by any final court action in a court of competent jurisdiction or by reason of any preemptive legislation, the remaining provisions, sections, paragraphs, sentences or words of this Resolution as hereby adopted shall remain in full force and effect.

Section 4. Repeal of Conflicting Provisions.

That all the provisions heretofore adopted by the City Council that are in conflict with the provisions of this Resolution are hereby repealed.

Section 5. Effective Date.

That this Resolution shall take effect upon its adoption.

Section 6. Certification.

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

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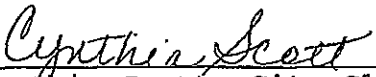
PASSED, APPROVED AND ADOPTED on this 16th day of May, 2013.

CITY OF RANCHO MIRAGE
CITY COUNCIL



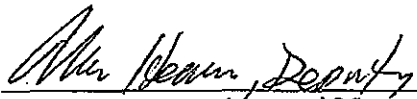
Richard W. Kite, Mayor

ATTEST:



Cynthia Scott, City Clerk

APPROVED AS TO FORM:



For Steven B. Quintanilla,
City Attorney

EXHIBIT "A"
FUND BALANCE POLICY
SEE ATTACHED

Attachment A

CITY OF RANCHO MIRAGE
FUND BALANCE POLICY

I. Effective date of policy

This policy is effective upon adoption by City Council.

II. Purpose

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement 54). Statement 54 is designed to improve the reporting of fund balance and to establish a hierarchy of fund balance classifications based primarily on the extent to which governments are bound by constraints on resources reported in the funds. This policy will establish the procedures for reporting, within the annual financial statements, unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the City's governmental funds. Statement 54 only applies to reporting of governmental funds and does not impact Enterprise, Internal Service, or Fiduciary Funds.

III. Definitions:

Fund balance refers to the difference between assets and liabilities reported in the City's governmental funds. Generally there are limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Under Statement 54 the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. All five components of fund balance will not always be used in any given fiscal year. The five components of fund balance are as follows.

- Nonspendable: Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.

- Restricted: Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

- Committed: Resources that are constrained to specific purposes by a formal action of the City Council by resolution. The constraint remains binding unless removed or changed in the same formal manner by the City Council. Council action to commit fund balance must occur within the fiscal reporting period while the calculation of the committed balance may be determined subsequently.

- Assigned: For the General Fund, amounts constrained for the intent to be used for a specific purpose, but that are neither restricted nor committed. Intent can be expressed by the City Council or by an official or body to which the Council delegates the authority. Amount reported as assigned should not result in a deficit in unassigned fund balance. For all governmental funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed.

- Unassigned: Within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, amount expended in excess of resources that are nonspendable, restricted or committed (a residual deficit). In determining a residual deficit, no amount should be reported as assigned.

IV. Policy:

1. When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.
2. This policy delegates to the City Manager the authority to assign unrestricted fund balance amounts where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.
3. The City Council, as the highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by resolution. For the commitment of fund balance, resolution is the highest form of action. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use or amount through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; but the amount, if any, which will be subject to the constraint, may be determined at a subsequent period.

This policy has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

EXHIBIT "B"

RESOLUTION 2013-23

SEE ATTACHED

RESOLUTION NO. 2013-23

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO MIRAGE APPROVING COMMITMENT OF CERTAIN RESERVES FOR SPECIFIED PURPOSES CONSISTENT WITH THE FUND BALANCE POLICY.

WHEREAS, the Governmental Accounting Standards Board ("GASB") is the authoritative body that sets accounting principles for governmental agencies, including the City of Rancho Mirage; and

WHEREAS, GASB pronouncements comprise the majority of generally accepted accounting principles for governmental agencies; and

WHEREAS, GASB has issued Government Accounting Standards Board No. 54 Fund Balance Reporting and Governmental Fund Type Definitions ("Statement 54") which requires that governmental agencies change the categories and terminology used to describe the components of fund balance; and

WHEREAS, Statement 54 is designed to improve the reporting of fund balance and to establish a hierarchy of fund balance classifications based primarily on the extent to which governments are bound by constraints on resources reported in the funds; and

WHEREAS, the City Council has approved the Fund Balance Policy that is attached hereto as Exhibit "A" and incorporated herein by this reference, which policy comports with the requirements of Statement 54; and

WHEREAS, the Fund Balance Policy establishes the procedures for reporting, within the annual financial statements, unrestricted fund balance within the City's governmental funds; and

WHEREAS, staff proposes that certain reserves from the City's General Fund be committed for certain specified purposes, as set forth in Exhibit "B," attached hereto and made part hereof, and consistent with the Fund Balance Policy.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF RANCHO MIRAGE DOES HEREBY RESOLVE, DECLARE, DETERMINE, AND ORDER AS FOLLOWS:

Section 1. Recitals.

That the Recitals set forth above are true and correct.

Section 2. Approval of Commitment of Certain Reserves for Specified Purposes Consistent with the Fund Balance Policy.

That the City Council hereby approve commitment of certain reserves as set forth in Exhibit "B," consistent with the Fund Balance Policy.

Section 3. Severability.

That should any provision, section, paragraph, sentence or word of this Resolution be rendered or declared invalid by any final court action in a court of competent jurisdiction or by reason of any preemptive legislation, the remaining provisions, sections, paragraphs, sentences or words of this Resolution as hereby adopted shall remain in full force and effect.

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That all the provisions heretofore adopted by the City Council that are in conflict with the provisions of this Resolution are hereby repealed.

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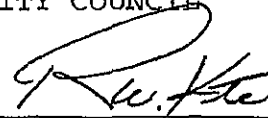
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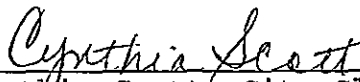
PASSED, APPROVED AND ADOPTED on this 16th day of May, 2013.

CITY OF RANCHO MIRAGE
CITY COUNCIL



Richard W. Kite, Mayor

ATTEST:


Cynthia Scott, City Clerk

APPROVED AS TO FORM:

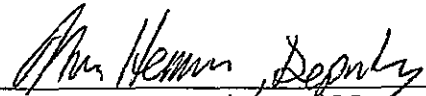
For 
Steven B. Quintanilla,
City Attorney

EXHIBIT "A"

FUND BALANCE POLICY

SEE ATTACHED

Attachment A

CITY OF RANCHO MIRAGE
FUND BALANCE POLICY

I. Effective date of policy

This policy is effective upon adoption by City Council.

II. Purpose

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement 54). Statement 54 is designed to improve the reporting of fund balance and to establish a hierarchy of fund balance classifications based primarily on the extent to which governments are bound by constraints on resources reported in the funds. This policy will establish the procedures for reporting, within the annual financial statements, unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the City's governmental funds. Statement 54 only applies to reporting of governmental funds and does not impact Enterprise, Internal Service, or Fiduciary Funds.

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2. This policy delegates to the City Manager the authority to assign unrestricted fund balance amounts where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.
3. The City Council, as the highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by resolution. For the commitment of fund balance, resolution is the highest form of action. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use or amount through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; but the amount, if any, which will be subject to the constraint, may be determined at a subsequent period.

This policy has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

EXHIBIT "B"

COMMITMENT FUND BALANCE

Attachment B

Committed Fund Balance for the General Fund Only:

Prudent Reserve:

The Prudent Reserve commitment is \$25 million set aside for future revenue shortfall that meet or exceed the following. If the state reduces future revenue streams or if economic conditions lead to a decline in total general fund revenues of 9% or more from the prior year total general fund revenue amount in any given fiscal year. The City may utilize the Prudent Reserve funds to maintain levels of service to the City and its residents.

Disaster Recovery:

The Disaster Recovery commitment of \$15 million is to cover costs and losses as a result of a major earthquake and disasters that require the activation of the City's Emergency Operation Center (EOC) in accordance with California Emergency Services Act.

Capital Projects:

The Capital Project commitment set aside is \$10 million for land, equipment replacement, information technology equipment and software, facility and infrastructure renovation, upgrade and acquisitions. This set aside can also be used for solar and other "green" projects.

Economic Development:

Due to the passage of AB X1 26 and the loss of the redevelopment agency funding for economic development projects and programs. The Economic Development commitment of \$5 million will be used to continue economic development efforts such as the Highway 111 Façade improvement and property upgrade program, as well as incentive and acquisitions programs to encourage retail and hotel growth within the City.

City of Rancho Mirage Public Library:

It is anticipated the General Fund will eventually have to supplement the operating and capital costs of the Library Fund. The Library Fund commitment of \$5 million will be for those costs.

Ritz Spa Suite Purchase:

\$5 million will be committed for the purchase of the Spa Suite's according to Operating Covenant and amendments.

Section 19 Water:

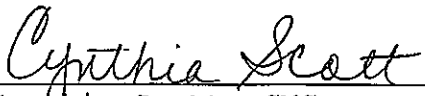
\$5.125 million will be committed for deposit into an escrow account relating to costs of bringing water to section 19 for development purposes. In the event the actual amount required for deposit into the escrow account is less than the \$5.125 million commitment, the remaining amount will cease to be committed and revert back to unassigned fund balance.

CERTIFICATION

STATE OF CALIFORNIA)
)
COUNTY OF RIVERSIDE)
)
CITY OF RANCHO MIRAGE)

I, Cynthia Scott, City Clerk of the City of Rancho Mirage, California, do hereby certify that Resolution No. 2013-23 was duly adopted by the City Council of the City of Rancho Mirage, California, at a regular meeting thereof held on the 16th day of May, 2013, by the following vote:

AYES: Smotrich, Weill, Kite
NOES: None
ABSENT: Hines, Hobart
ABSTAIN: None



Cynthia Scott, CMC
City Clerk