



Reserves



Overview

- **Support Strategic Goal: Fiscal Stability**
 - Evaluate reserve levels to support cash flow and manage risk
 - Establish the appropriate level based on best practices and circumstances unique to the City of Pacific Grove
 - Current level at 10%
- **Determine appropriate level of reserves**
 - Retained consultant to assist with analysis
 - Presented preliminary information on Jan. 17, 2018
 - Prepared report included in the agenda packet
 - Developed recommendation based on the following items
 - Government Finance Officers Association (GFOA) Best Practices
 - Benchmarking
 - GFOA's structured approach for assessing risk



Purpose of Reserves: Mitigate Risks

- Economic Uncertainties
 - Local disasters
 - Downturns in the economy
 - State takeaways
- Contingencies for unforeseen capital needs
- Strategic opportunities
- Cash flow
 - Property tax revenues received in December and April





Structured Assessment

Risk	Score
Vulnerability to extreme events	3.0
Revenue source stability	4.0
Expenditure volatility	5.0
Leverage	5.0
Liquidity	5.0
Other funds dependency	2.0
Growth	2.0
Capital Projects	5.0
Total Score	31.0

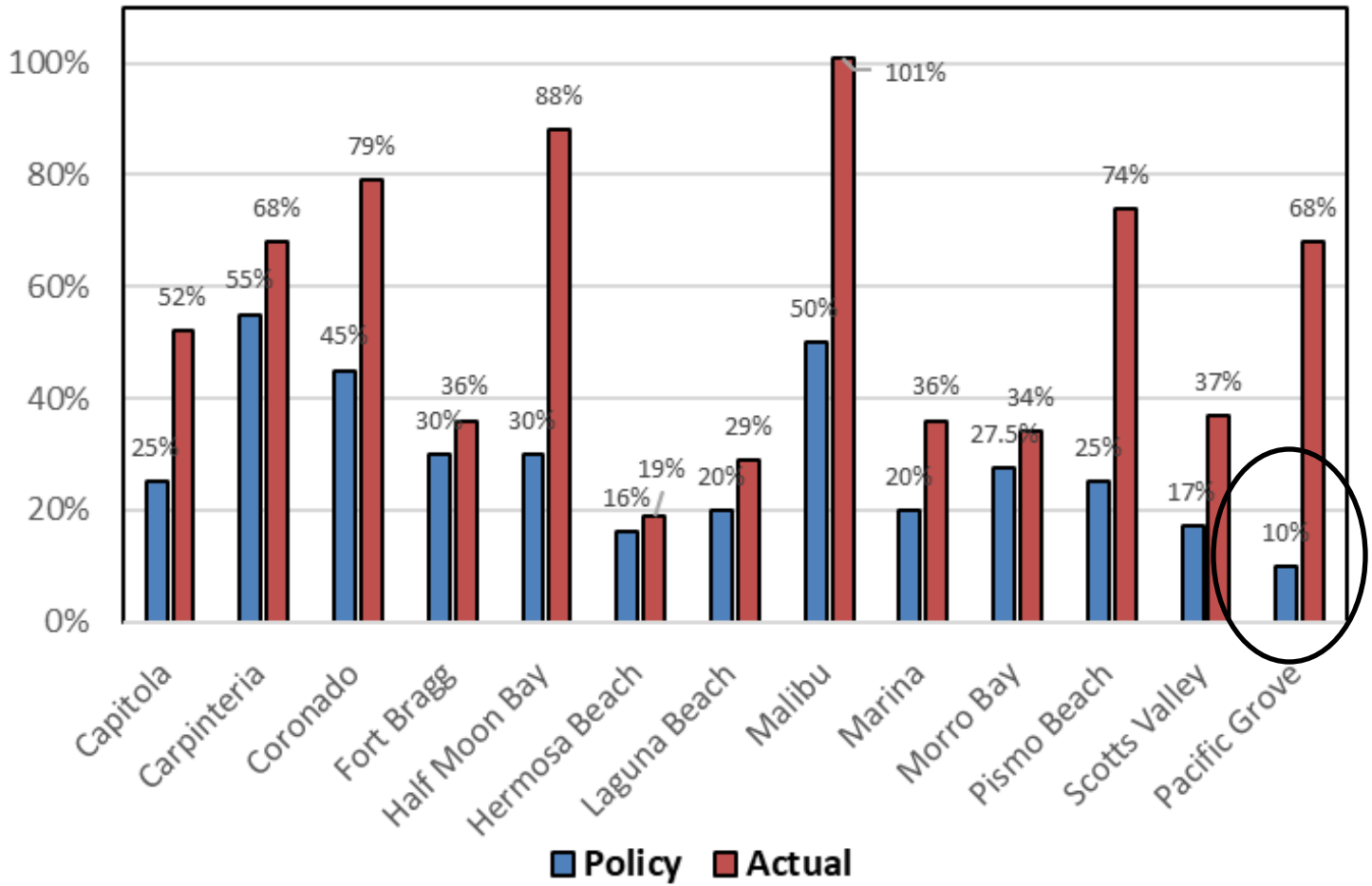
Scores of 25-31: Classified as moderate to high level of risk

- GFOA recommends considering a target amount of reserves between 26-35%
- Consultant and staff recommendation of 35%



Benchmark Cities

General Fund Operating Reserves: Policy Vs Actual

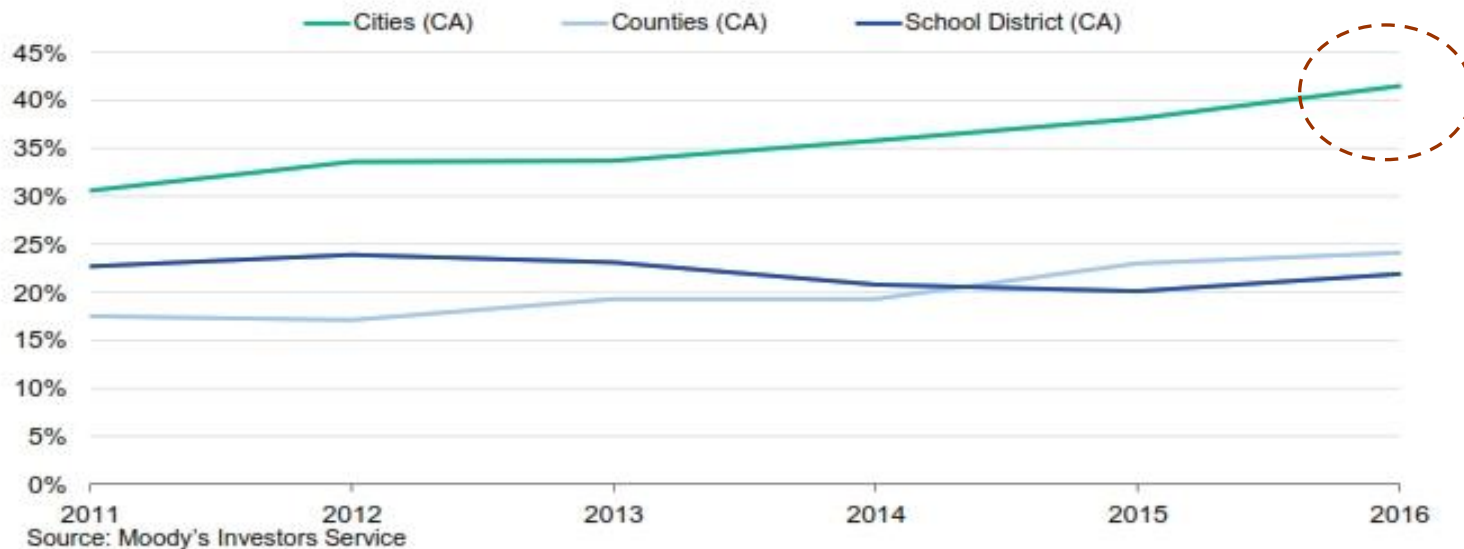




Moody's Investor Services Excerpt

Average Operating Fund Balances Increasing for California Cities and Counties

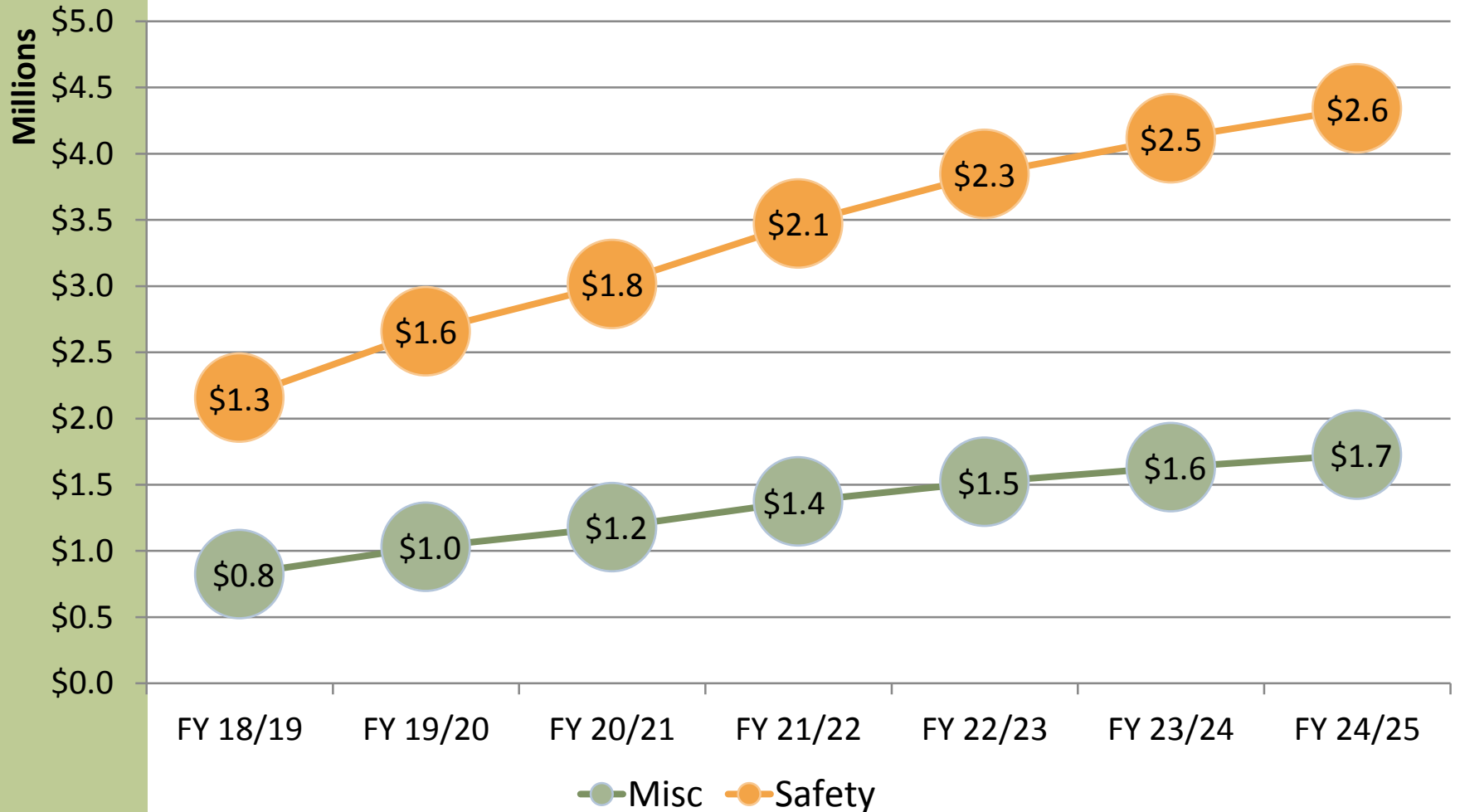
- » School districts lagged general increasing trend, but increased in 2016
- » CA city operating fund balance average exceeds national average
- » CA counties lag national averages though reserves are still at healthy levels





Leverage: Rising Pension Costs

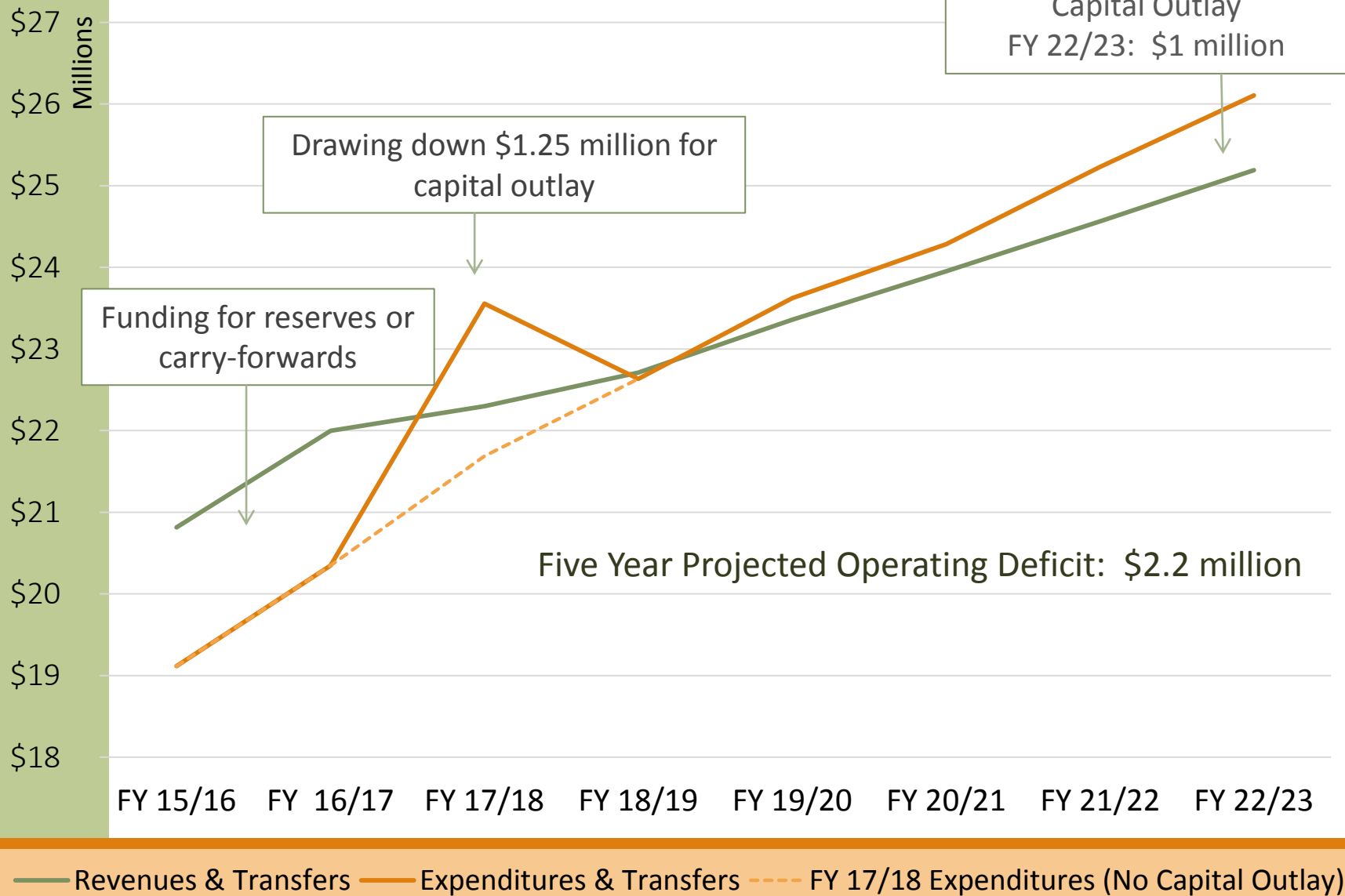
PERS Unfunded Actuarial Liability Contributions





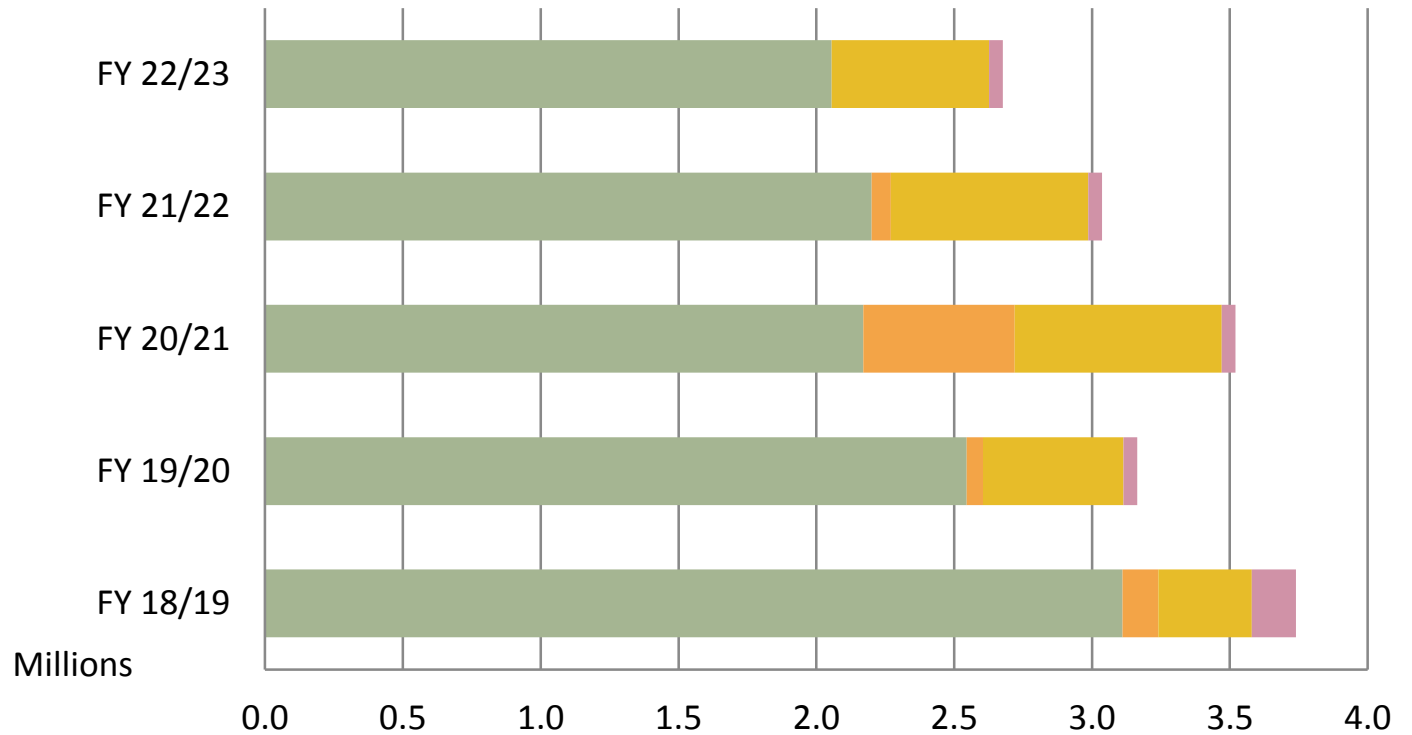
Expenditure Volatility, Leverage

Five Year Overview Prior to Capital Outlay





Capital Outlay



	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Streets, Buildings, Infrastructure	\$3,111,000	2,545,000	2,170,000	2,200,000	2,055,000
Capital Outlay	\$130,000	60,000	550,000	70,000	-
Technology	\$339,000	509,000	751,000	716,000	571,000
Programs	\$160,000	50,000	50,000	50,000	50,000

Totals	\$3,740,000	\$3,164,000	\$3,521,000	\$3,036,000	\$2,676,000
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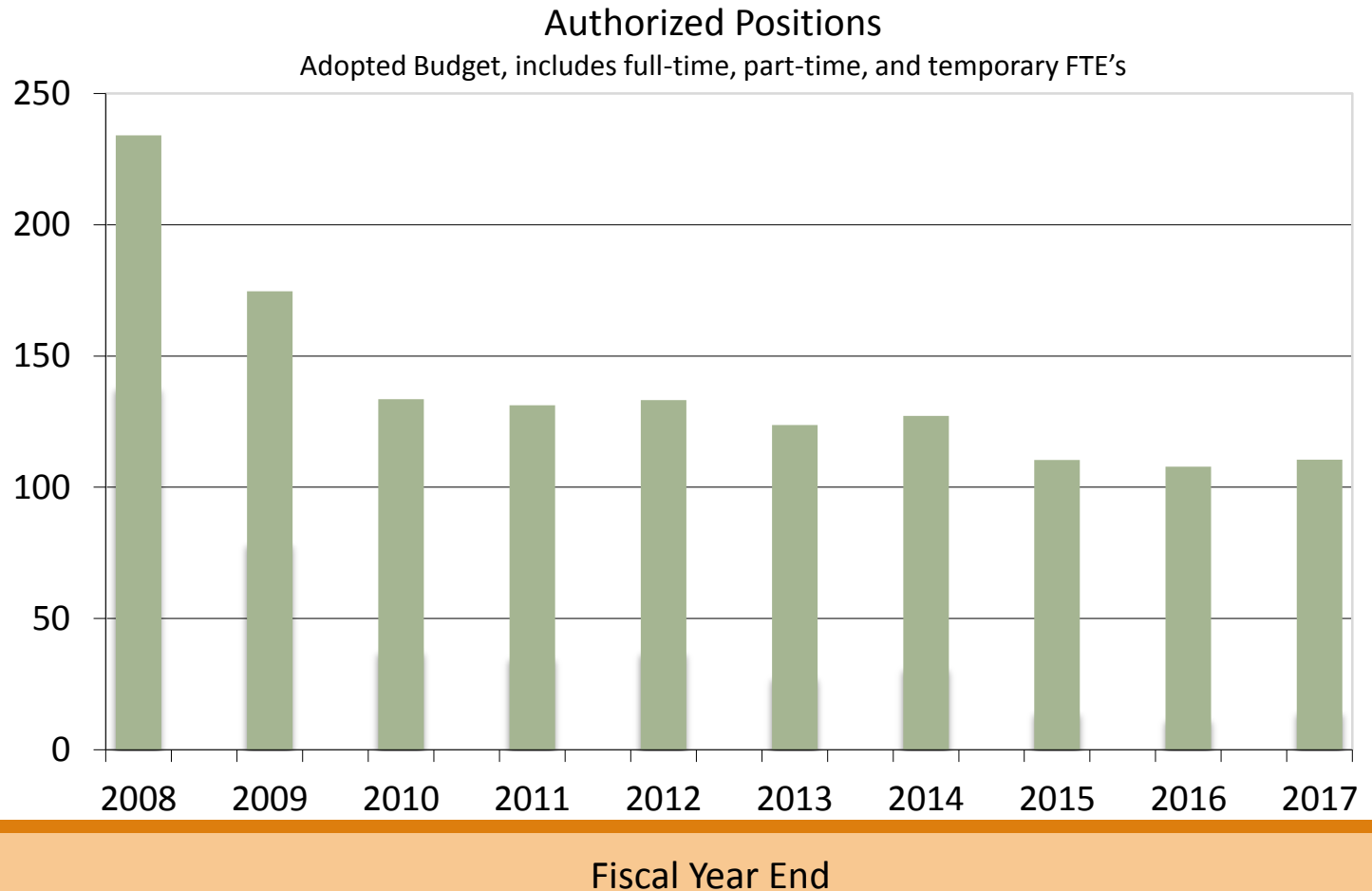


Revenue Source Stability

Revenues responding fairly quickly to economic changes:

- Sales Tax: 23%
- Transient Occupancy Tax: 16%

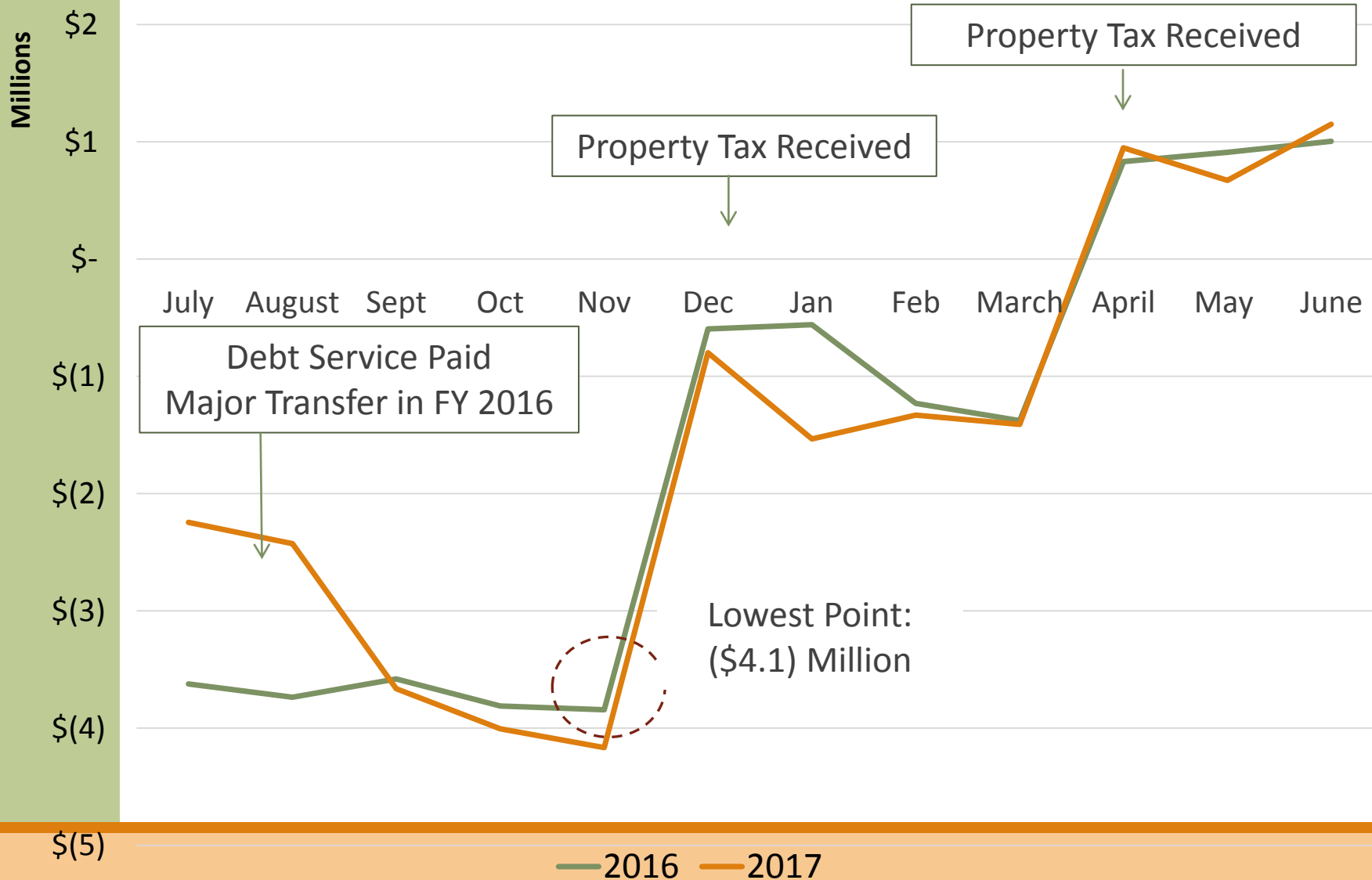
Prior fiscal stability assistance: Reduction in positions





Liquidity: Cash Flow Trends

References: Zero fund balance to identify low point





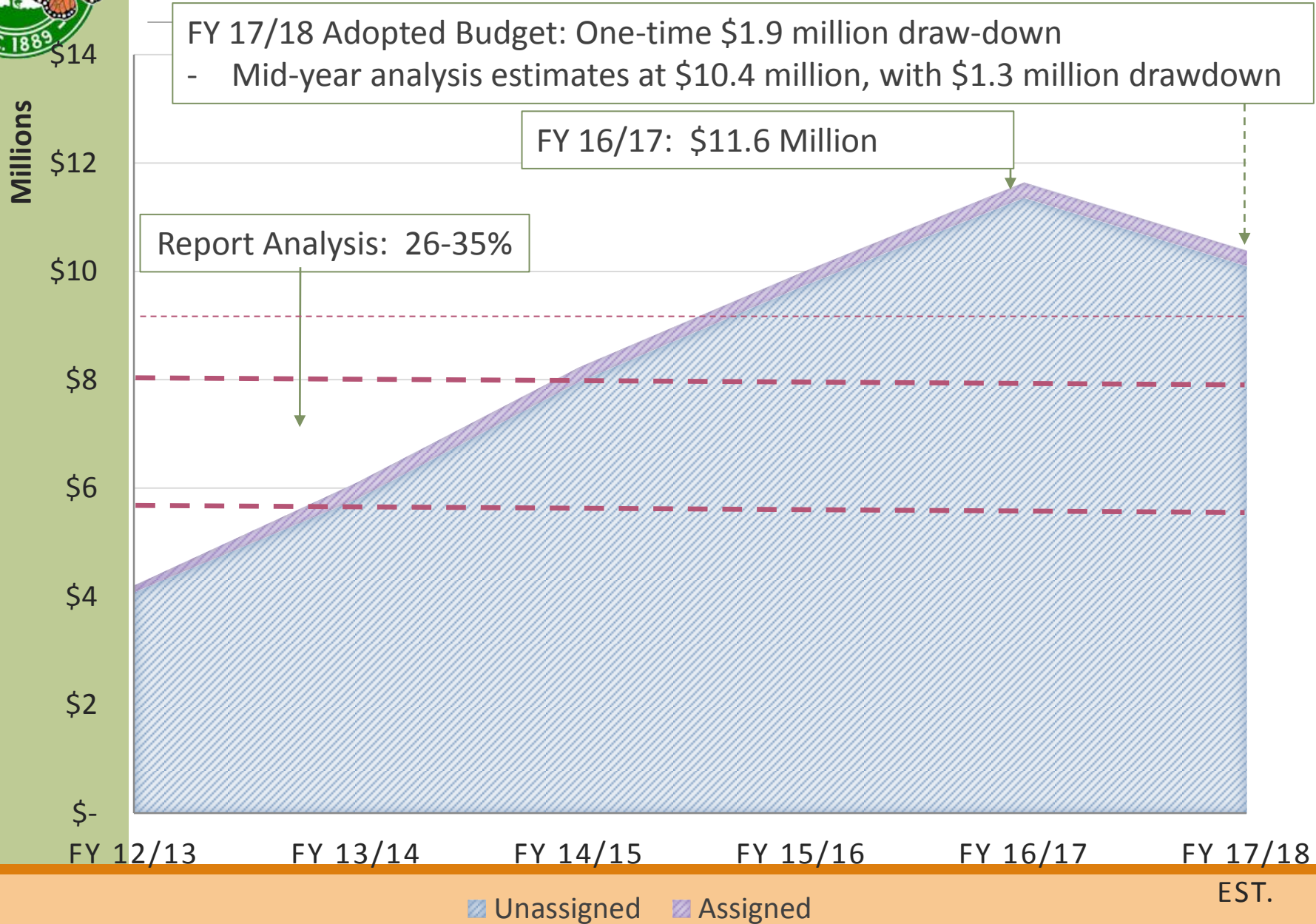
Reserve Policy Components

- Establishes the minimum General Fund Reserve Target
 - Recommended level at 35%
 - Cash flow allocation: 20%
 - Fiscal stability: 10%
 - Contingencies, opportunities: 5%
- Identifies when it is appropriate to use reserves
- Provides a strategy for restoring the reserve
- Presents guidelines for accounting and financial reporting
- Discusses other areas for additional reserves
- Includes statement to compare actual vs target





General Fund Reserves





Sample Calculation: Fiscal Year 16/17

Fiscal Year 16/17 Actual	Percent	Amount
Audited ending general fund balance		\$11,632,000
Est. carry-forward		(854,000)
Adjusted net fund balance		\$10,778,000
Operating Expense		\$17,735,000
Debt Service		2,003,000
Subtotal		\$19,738,000
Less capital outlay		(681,000)
Net operating expenses		\$19, 057,000
Reserve Calculation:		
Cash Flow	20%	\$3,811,000
Fiscal Stability	10%	1,906,000
Contingency	5%	953,000
Total Reserves	35%	\$6,670,000



Sample Calculation: Fiscal Year 18/19

Fiscal Year 18/19 Forecast	Percent	Amount
Audited ending general fund balance		\$10,374,000
Estimated "assigned" fund balance		(200,000)
Adjusted estimated net fund balance		\$10,174,000
Operating Expense		\$20,566,000
Debt Service		2,068,000
Subtotal		\$22,634,000
Less capital outlay		(-)
Net operating expenses		\$22,634,000
Reserve Calculation:		
Cash Flow	20%	\$4,527,000
Fiscal Stability	10%	2,263,000
Contingency	5%	1,132,000
Total Reserves	35%	\$7,922,000



Questions
