



## Legislation Text

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**SUBJECT:** Adoption of Resolution Regarding a Revenue Stabilization Fund Policy

### REPORT IN BRIEF

Considers adopting a Resolution approving the Revenue Stabilization Fund Policy, which identifies the purpose, method of resource accumulation, maximum accumulation amounts and permissive uses for the Revenue Stabilization Fund.

### RECOMMENDATION

**City Council** - Adopt a motion adopting **Resolution 2019-15**, A Resolution of the City Council of the City of Merced, California, adopting Revenue Stabilization Fund Policy.

### ALTERNATIVES

1. Adopt as recommended by staff: or
2. Refer back to staff with specific direction

### AUTHORITY

Merced Municipal Code Section 3.16.120 Administration of funds

### CITY COUNCIL PRIORITIES

As provided for in the 2018-19 Adopted Budget

### DISCUSSION

During the Fiscal Year 2016-2017 budget process the Revenue Stabilization Fund and the Economic Development Opportunity Fund were established. The intention in establishing these separate funds was to develop a City Council approved policy that would identify the purpose, how resources would accumulate, the maximum amounts to accumulate, and when the funds could be used.

The Revenue Stabilization Fund was established to have funds available to mitigate unanticipated General Fund revenue shortfalls or to provide revenue for emergency circumstances such as a natural disaster. This is in addition to the city's goal of maintaining the unassigned portion of the unrestricted General Fund balance at a minimum of the average of two months of revenue and expenditures as recommended by the Government Finance Officers Association (GFOA).

The Economic Development Opportunity Fund was established to provide the opportunity to take advantage of business development and/or job creation for significant capital investment.

On April 2, 2018, two policies were presented to the City Council for consideration. City Council adopted Resolution 2018-20, A Resolution of the City Council of the City of Merced, California, adopting Economic Development Opportunity Fund Policy. The City Council referred the Revenue Stabilization Fund Policy back to staff for two reasons. One, Staff was in the process of evaluating and recommending establishing a Trust 115 for Pension and it was unknown at that time how it might impact this funding source. Two, if the City Council determined to retain the Revenue Stabilization Fund they wanted to see some revisions to the policy language regarding the criteria for its use.

On January 7, 2019 the City Council adopted Resolution 2019-04, A Resolution of the City Council of the City of Merced, California, approving the adoption of the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services. On February 19, 2019 staff presented the City Council with options of funding the Trust 115. One of the options was to dissolve the Revenue Stabilization Fund and place the accumulated resources in the Trust 115. The City Council voted to maintain the Revenue Stabilization Fund necessitating a policy be adopted.

The proposed policy states resources will accumulate up to a maximum of \$20,000,000. Resources will accumulate from the General Fund in amounts determined by the City Council or during the budget submission process. Per the proposed policy, the funds can be used if the City Council determines it is needed to maintain current levels of city services and programs, in order to meet the GFOA recommended minimum in the General Fund, and/or to sustain city services in the event of a catastrophic event. All expenditures from this fund will require City Council approval either at the specific use or as part of the annual budget.

Using the model initially developed when the Revenue Stabilization and Economic Development Opportunity Funds were created, staff is proposing the following in order to support three financial resources.

The budget submission for each year will include a recommendation for a General Fund contribution of the calculated 75% excess of prior year audited unreserved General Fund balance over the GFOA recommended minimum.

Example:

Fiscal Year 15-16 audited unreserved fund balance at June 30	\$8,659,009
Fiscal Year 17-18 GFOA Recommended minimum	<u>6,681,022</u>
Excess over GFOA Minimum	1,977,987
Amount Rounded	1,900,000
	<u>75%</u>
75% of Excess	\$1,425,000
40% of 75% excess to Revenue Stabilization	\$ 570,000
20% of 75% excess to Economic Development Opportunity	285,000
40% of 75% excess to Trust 115 for Pension	<u>570,000</u>
Total	\$1,425,000

## IMPACT ON CITY RESOURCES

No Appropriation of Funds is needed at this time.

## **ATTACHMENTS**

1. Resolution-Revenue Stabilization Fund Policy
2. Originally proposed Revenue Stabilization Fund Policy