

City Council Chambers
29844 Haun Road
Menifee, CA 92586
(In-Person)



City of Menifee
Finance Committee
Meeting Agenda

Lesa Sobek, Committee Member
Dean Deines, Committee Member

Tuesday, June 22, 2021
3:00 PM Regular Meeting

AGENDA

1. CALL TO ORDER
2. ROLL CALL
3. FLAG SALUTE
4. PRESENTATIONS – None
5. PUBLIC COMMENTS
6. APPROVAL OF MEETING MINUTES
 - 6.1 October 15, 2020 Finance Committee Minutes
7. DISCUSSION ITEMS
 - 7.1 Fund Balance Policy for the General Fund

Recommended Action:

Review and discuss the Fund Balance Policy reserve requirements and provide a recommendation to City Council to amend the Minimum Level of Fund Balance.

8. STAFF COMMENTS
9. COMMITTEE REPORTS/COMMENTS ON COMMITTEE ACTIVITIES
10. FUTURE AGENDA ITEMS
11. ADJOURNMENT

Decorum Policy Notes

Please use a speaker request form when you wish to address the Committee. The Committee anticipates and encourages public participation at its Committee meetings, both on agenda items and during the public comments period. Please use respect by not having your cell phones on, refrain from talking in the audience or outbursts that may be disruptive. While we encourage participation, we ask there be a mutual respect for the proceedings.

Agenda Materials

Materials related to an item on this Agenda, including those submitted to the Committee after distribution of the agenda packet, are available for public inspection by contacting the City Clerk, at (951) 672-6777 during normal business hours.

Compliance with the Americans with Disabilities Act

If you need special assistance to participate in this meeting, you should contact Sarah Manwaring, City Clerk, at (951) 672-6777. Notification 72 hours prior to the meeting will enable the City to make reasonable arrangements to assure accessibility to this meeting.

City Council Chambers
Via Ring Central
(See virtual information below)



City of Menifee
Finance Committee
Meeting Minutes

Lesa Sobek, Committee Member
Dean Deines, Committee Member

Thursday, October 15, 2020
2:00 PM Special Meeting

MINUTES

1. CALL TO ORDER

The Meeting was called to order at 2:06 p.m.

2. ROLL CALL

Committee Members Deines and Sobek were present.

3. FLAG SALUTE

Committee Member Deines led the flag salute.

4. PRESENTATIONS – None

5. APPROVAL OF MEETING MINUTES

None.

6. DISCUSSION ITEMS

7.1 Joint Powers Agreement for California Intergovernmental Risk Authority

Deputy City Manager Rochelle Clayton presented the item. The Committee asked questions about the City representative, the size of other city members, if rates will be affected by the City's police department, and what other risk pools are being considered.

Ms. Clayton stated that she represents the City on the board, which meets twice per year. She said that the City of Menifee does not currently have a lot of claims so that helps the pool instead of hurting it. She added that it might change with the police department and increase rates, but they will not know until February or March of 2021. Ms. Clayton said that the City received three proposals for review.

The Committee agreed with the recommended action.

Recommended Action:

Review and comment on the information regarding the proposed Joint Powers Agreement for the California Intergovernmental Risk Authority (CIRA), which permits the merger or joining of the Public Agency Risk Sharing Authority of California (PARSAC) and the Redwood Empire Municipal Insurance Fund (REMIF).

7.2 Proposed Community Facilities District No. 2020-3 (Sumac Ridge)

Ms. Clayton presented an overview of the item and reported on a correction to recommended action as 175 units, not 17. Ms. Clayton introduced City Consultant Shane Spicer to present the item.

Mr. Spicer reported on the process of the proposed Community Facilities District (CFD) including the schedule of the hearing and election, and the second reading.

The Committee asked questions about the project including open space and maintenance. Acting City Engineer Yolanda Macalalad and Community Services Director Jon Nicks answered the Committee's questions.

The Committee asked how the City was going to ensure the residents would get what they pay for and further discussed what the actual project would be the funds would go towards. Ms. Clayton said that staff would come back to the committee with a reporting tool and exact process and accountability.

The Committee agreed with the recommended action.

Recommended Action:

Review the proposed Community Facilities District No. 2020-3 (Sumac Ridge) by MLC Holdings to finance the costs of certain public improvements for the development of a residential tract containing 17 units located north of Scott Road at the intersection of Scott Road and Lindenberger Road, and recommend submittal to the City Council for approval at the November 4, 2020 City Council Meeting.

7.3 Draft Revised Investment Policy

Ms. Clayton presented the report for the item and the need for a revised policy.

The Committee discussed the current earnings, investment terms, and asked questions about alternative investments.

Committee Member Deines asked questions about draft policy Section 16: Performance Evaluation. Sobek said that she did not have the time to fully review the draft policy. Ms. Clayton said that she would schedule another committee meeting for further review of the policy.

The item was continued.

Recommended Action:

Review and provide comment on the Draft Revised Investment Policy and investment alternatives.

7. STAFF COMMENTS

There were no staff comments.

8. COMMITTEE REPORTS/COMMENTS ON COMMITTEE ACTIVITIES

There were no committee reports or comments.

9. FUTURE AGENDA ITEMS

There were no future agenda requests.

10. ADJOURNMENT

The meeting adjourned at 3:02 p.m.

Sarah A. Manwaring, City Clerk



CITY OF MENIFEE

SUBJECT: Fund Balance Policy for the General Fund
MEETING DATE: June 22, 2021
TO: Finance Committee
PREPARED BY: Wendy Preece, Deputy Finance Director
REVIEWED BY: Rochelle Clayton, Assistant City Manager

RECOMMENDED ACTION

Review and discuss the Fund Balance Policy reserve requirements and provide a recommendation to City Council to amend the Minimum Level of Fund Balance.

DISCUSSION

The purpose of the Fund Balance Policy is to establish a target and minimum levels of unrestricted fund balance to be maintained in various funds and to identify certain requirements for classifying fund balance. This policy established the following fund balance reserves:

Committed Fund Balance	10%
Assigned Fund Balance	10%
Unassigned Fund Balance	<u>5%</u>
Total Fund Balance Reserve	25%

The above designations are defined as follows.

Committed Fund Balance for Financial Stabilization Arrangement:

The City's General fund balance committed for Operating Reserve Stabilization is established at a minimum of 10% of the General Fund's current operating expenditures, to be used in a catastrophic event or major emergency.

Assigned Fund Balance:

The City's assigned for Economic Uncertainty Reserve is established at a minimum of 10% of the General Fund's current operating expenditures, to be used during times of severe economic distress such as protracted recessionary periods, State raids on local resources, or other

impactful unforeseen events which greatly diminish the financial ability of the City to deliver core services.

Unassigned Fund Balance

The City will achieve and maintain a minimum unassigned fund balance in its General Fund of 5% of the current year’s operating expenditures. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain budgeted levels of service.

Finance staff is now recommending that as of July 1, 2021 the Fund Balance Reserve requirement be increased to the following:

Committed Fund Balance	12.5%
Assigned Fund Balance	12.5%
Unassigned Fund Balance	<u>10%</u>
Total Fund Balance Reserve	35%

The policy shall be reviewed every three years and staff recommends to incrementally increase the reserve requirement if possible, to reach a total required Fund Balance Reserve of 50%. A possible scenario of this process is shown in the following table:

<u>FY 13/14</u>	<u>FY 21/22</u>	<u>FY 24/25</u>	<u>FY 27/28</u>	<u>FY 30/31</u>
10%	12.5%	15%	17.5%	20.0%
10%	12.5%	15%	17.5%	20.0%
5%	10.0%	10%	10.0%	10.0%
25%	35%	40%	45%	50%

The following is a comparison of other local agency’s Fund Balance Reserve requirement levels.

Agency	General Fund Reserve
City of Perris	35% of annual budgeted revenues
City of Murrieta	30% of annual budgeted expenditures
City of Menifee	25% of annual budgeted expenditures
City of Moreno Valley	22% of annual budgeted expenditures
City of Temecula	20% of annual budgeted expenditures
City of Riverside	20% of annual budgeted expenditures
City of Lake Elsinore	17.5% of annual budgeted expenditures

ADDITIONAL OPTIONS

Unassigned Fund Balance over the current required levels can be designated into a Capital Projects Fund reserve for future capital projects designated by City Council.

ATTACHMENTS

Fund Balance Policy FN-01-2

CITY OF MENIFEE Finance Policy	Policy Number: FN-01-2 Approving Authority: City Council
Subject Fund Balance Policy for the General Fund	Effective Date: Last Modified: 8-21-13 <hr/> Page 1 of 7

1.0 PURPOSE

The purpose of this Policy is to establish a target and minimum levels of unrestricted fund balance to be maintained in various funds and to identify certain requirements for classifying fund balance in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*.

2.0 SCOPE / BACKGROUND

These policies/procedures apply to the various funds of the City of Menifee as described below. The City of Menifee’s primary financial objective is to maintain the fiscal stability of the organization. Unrestricted fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unrestricted fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. Having adequate financial resources will enable the City to achieve this objective and its mission of serving the citizens of Menifee.

3.0 POLICY

Committing Fund Balance

The City Council, as the City’s highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use 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; however, the amount can be determined subsequently.

Assigning Fund Balance

The City Council has authorized the Finance Director as the official authorized to assign fund balance to a specific purpose as approved by the fund balance policy. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Reporting Encumbrances

Encumbering amounts in governmental funds for specific purposes for which resources have already been restricted, committed or assigned should not result in a separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Hierarchy of Fund Balance Use

When multiple categories of fund balance are available for expenditure, the City will spend the most restricted funds first before moving down to the next category with available funds in the following order:

- a. Restricted
- b. Committed
- c. Assigned
- d. Unassigned

Establishing An Operating Reserve Stabilization Fund Balance

Maintaining a Financial Stabilization Fund Balance is a necessity for sound financial management and fiscal accountability. The City Council has the authority to establish an Operating Reserve Stabilization Fund Balance that will be a Committed Fund Balance.

An Operating Reserve Stabilization Fund Balance in the General Fund is established for the purpose of providing funds for an urgent effect that affects the safety of residents, employees, or property (e.g. earthquake, wildfires, terrorist attack etc.). The minimum level for the Financial Stabilization Account is 10% of General Fund operating expenditures. The recognition of an urgent event must be established by the City Council by adoption of a resolution explaining the nature of the fiscal crisis and requires approval by a majority vote of the City Council.

Use of Stabilization Fund Balance

General Fund Operating Reserve Stabilization Fund Balance shall be used only to fund unanticipated needs and/or emergencies as described below:

Catastrophic Events and Major Disasters-The Financial Stabilization fund balance is to fund the extraordinary operating costs, legal costs and cash flow problems associated with delays in State and Federal reimbursements for any catastrophic event and major disaster (natural or man-made) declared by the City Council of their designee, or by the State of California, or by the federal government that are nonrecurring expenditures.

A budget revision must be approved by the City Council. A maximum of fifty percent of the prior year ending balance in the Operating Reserve Stabilization Fund may be drawn. At no time may the balance be less than 5 percent of the adopted annual appropriations, or half of the prior year ending balance, whichever is greater.

Changes and Replenishment of Stabilization Fund Balance

The City Council may, by a majority vote of its members, change the amount of this commitment and/or the specific uses of these monies. In the event that the balance drops

below the established minimum level, the City Council will develop a plan to replenish the Operating Reserve Stabilization Fund balance to the established minimum level within three years. The progress of replenishment should be reported in the annual budget. The City will use non-recurring revenues, budget surplus, proceeds from the sale of City-owned surplus property, and any other funds identified in the budget to increase the Stabilization fund balance.

Minimum Level of Fund Balance/Net Assets

General Fund: It is the goal of the City to achieve and maintain a minimum unrestricted (committed, assigned and unassigned) fund balance in its General Fund equal to 25% of the current year's budgeted operating expenditure. This percentage represents a balance roughly equal to three (3) months of operating expenditures. The Government Finance Officers Association (GFOA) recommends that "general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."¹ The City considers a balance of less than 20% to be a cause for concern, barring unusual or deliberate circumstances.

Committed Fund Balance for Financial Stabilization Arrangement

The City's General fund balance committed for Operating Reserve Stabilization is established at a minimum of ten (10) percent of the General Fund's current operating expenditures, to be used in a catastrophic event or major emergency.

The City will utilize the amounts previously identified as an Emergency Contingency Reserve to fund the Financial Stabilization Arrangement.

Assigned Fund Balance

The City's assigned for Economic Uncertainty Reserve is established at a minimum of ten (10) percent of the General Fund's current operating expenditures, to be used during times of severe economic distress such as protracted recessionary periods, State raids on local resources, or other impactful unforeseen events which greatly diminish the financial ability of the City to deliver core services. The Assigned Fund Balance will be used during periods of economic distress as measured by one of the following triggers:

- Consumer Price Index exceeds the index for the previous year by more than five percent for two consecutive years.
- Local unemployment rate exceeds ten percent for three consecutive quarters.
- The rate of inflation exceeds the growth in property tax revenue by five percent for two consecutive fiscal years.
- Significant State take-away of revenue totaling more than five percent of total revenue in a given fiscal year.
- Sales Tax revenue falls by ten percent of the previous quarter for at least three consecutive quarters.

¹ GFOA Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009)

- Revenue forecasts for the next fiscal year estimates revenue loss of more than seven percent.

Unassigned Fund Balance

The City will achieve and maintain a minimum unassigned fund balance in its General Fund of five (5) percent of the current year's operating expenditures. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain budgeted levels of service.

Special Revenue Funds: Special revenue funds are created to account for the proceeds from specific revenue sources that are legally restricted for specific purposes (i.e. grants, gas tax). No specific minimum fund balance requirement is created by this policy. Rather, each fund must adhere to any underlying guidelines attached to that revenue source.

Debt Service Funds: Debt service funds are very specific with the amount of fund balance required to be held. The minimum fund balance requirement for any outstanding bond issue will be consistent with the bond covenants.

Capital Project Funds: Capital project funds are created to account for revenue set aside to construct or acquire capital assets or improvements. These projects may extend beyond one fiscal year. No specific amount for minimum fund balance is required.

Replenishing Minimum Fund Balance Deficiencies

When minimum fund balance falls below the required threshold, the City Council must approve and adopt a plan to restore this balance to the target level within three years using the budget strategies described below:

- The City will use budget surplus
- The City will reduce recurring expenditures to eliminate any structural deficit or,
- The City will increase revenues or pursue other funding sources, or
- A combination of the three options above

The progress of replenishment shall be reported in the annual budget.

Deficit Fund Balance

If the fund balance is not positive at any year-end, the City shall develop a funding plan and a timeframe to bring it into a positive state.

The unassigned fund balance deficit in General Fund shall be restored through the following mechanisms, in order of priority:

- Reduction of (1) assigned fund balance levels, (2) committed fund balance levels;
- Transfer of unassigned fund balances from other related funds, if allowed.

Surplus Fund Balance

Unrestricted fund balance in the General Fund will be considered a surplus if over 30% of the budgeted operating expenditures. If unrestricted fund balance of the General Fund exceeds 30%, the City may consider such fund balance surpluses to be used for (a) capital

projects and equipment (b) pay down long-term obligations, and (c) one-time expenditures that are non-recurring in nature and which do not require additional future operating expenditure outlay for maintenance, additional staffing or other recurring expenditure. Appropriation from the General Fund's unrestricted fund balance shall require the approval of the City Council.

Surplus Fund Balance-City Hall Commitment

In any year where total revenues exceed total expenditures (including capital expenditures), and the unrestricted fund balance of the General Fund exceeds 30%, the surplus may be transferred by direction of the City Council to the Committed Fund account set aside for construction of the future City Hall.

4.0 PROCEDURES

Implementation and Review

Upon adoption of this policy the City Council authorizes the Finance Department to establish standards and procedures which may be necessary for its implementation. The City Council shall review and approve this policy via resolution at a minimum of every three (3) years to ensure it continues to meet the needs of the City given the economic factors and the current financial status at that time interval.

5.0 RESPONSIBILITIES

- City Council
 - Adopt fund balance policy.
- City Manager
 - Determine appropriate levels of fund balance in accordance with adopted policy.
- City of Menifee, Finance
 - Finance Director to assign specific amounts for financial reporting purposes.
 - Responsible for recording amounts according to adopted policy.
 - Responsible for ensuring that fund balance is properly reported in the City's Comprehensive Annual Financial Report (CAFR).

6.0 DEFINITIONS

Governmental Funds:

The following definitions will be used in reporting activity in governmental funds across the City. The City may or may not report all funds types in any given reporting period, based on actual circumstances and activity.

- The general fund is used to account for all financial resources not accounted for and reported in another fund.
- Special revenue funds are use to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt services or capital projects.
- Debt service funds are used to account for all financial resource restricted, committed or assigned to expenditure for principal and interest.

- Capital project funds are used to account for all financial resources restricted, committed or assigned to expenditures for the acquisition or construction of capital assets.
- Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes.

Fund balance classification in governmental funds:

Fund balance is defined as the excess of total assets as compared to total liabilities in a governmental fund. GASB Statement No. 54 outlines the requirement to report the fund balance for governmental funds in specific classifications which create a hierarchy primarily based on the extent to which the City is bound to the constraints on the specific purposes for which funds can be spent. The Fund Balance consists of the following categories:

- Nonspendable Fund Balance: That portion of a fund balance that includes amounts that cannot be spent because they are either (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment.
- Restricted Fund Balance: That portion of a fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed Fund Balance: That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, and remain binding unless removed in the same manner.
- Assigned Fund Balance: That portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established at either the highest level of decision-making, or by an official designated for that purpose.
- Unassigned Fund Balance: That portion of a fund balance that includes amounts that do not fall into one of the above four categories. The General Fund is the only fund that will report this category of fund balance.

Stabilization Arrangement:

Per GASB Statement No. 54, governments have the option to formally set aside unrestricted fund balance amounts to use for budget or revenue stabilization, working capital needs, and contingencies or emergencies. The authority to set aside such amounts can be established by statute, ordinance, resolution, or charter. These amounts are subject to controls that dictate the circumstances under which they can be spent. The formal action that imposes the parameters for spending should identify and describe the specific circumstances under which a need for stabilization arises. These circumstances should be such that they would not be expected to occur routinely. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria of restricted or

committed fund balance. A stabilization agreement would satisfy the criteria to be reported as a separate special revenue fund only if the resources are derived from a specific restricted or committed revenue source. The notes to the annual financial report disclose the authority for establishing the arrangement, the requirement for additions to the amount, the conditions under which amounts may be spent, and the balance.

Revision History

Revision No.	Date Approved	Approved By:	Comments
0	6/21/11	City Council	Original Policy
1	6/19/12	City Council	Revision # 1
2	8-21-13	City Council	FN01-2