GENERAL FUND RESERVE POLICY

December 2018

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

General Fund Reserve Policy

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Town of Los Gatos
GENERAL FUND RESERVE POLICY

The purpose of this report is to review the Town's current minimum General Fund reserve policy and make recommendations for change as appropriate. The Town's current policy is provided in Appendix A, which includes the six key areas that should be covered in effective reserve policies:

- Sets the minimum reserve target.
- Identifies when it is appropriate to use reserves below the target amount.
- Provides a strategy for restoring the reserve if it falls below the target minimum.
- Presents guidelines for accounting and financial reporting of the reserve.
- Discusses other areas where the Council may decide to set reserve amounts.
- Compares actual versus target.

As noted above, of these six components, this review focuses on setting the minimum "operating reserve" target. The current combined minimum target is 25% of ongoing operating expenditures, minus one-time expenditures, with 12.5% assigned to Budget Stabilization and 12.5% assigned to Catastrophic events.   Based largely on the structured approach developed by the Government Finance Officers Association of the United States and Canada (GFOA) in assessing risk factors (www.gfoa.org/financialpolicies), the recommended target minimum is 30% of operating and debt service expenditures.

PROPOSED POLICY OVERVIEW

Minimum Reserve Target

The recommended policy sets the target minimum unrestricted General Fund balance at 30% of operating and debt service expenditures. This is largely based on the structured assessment methodology for setting reserve levels developed by the GFOA in considering a city's exposure to the following eight fiscal risk factors, which are discussed in greater detail later in this report:

- Vulnerability to extreme events and public safety concerns
- Revenue source stability
- Expenditure volatility

- Leverage, such as unfunded pensions and asset maintenance
- Liquidity (cash flow)
- Dependence of other funds on the General Fund
- Growth: revenue and expenditure imbalance
- Unfunded high priority capital projects

Depending on the results of this assessment, the GFOA methodology provides recommended targets ranging from a minimum of 16.6% of expenditures (60 days cash flow) to circumstances where more than 35% might be warranted. Based on the Town's circumstances, the GFOA's structured methodology recommends a target of 26% to 35%. Based on a "rating" at the middle range of the scale, combined with benchmark results for comparable cities, this report recommends a target of 30% of operating and debt service expenditures as follows.

> *The Town will strive to maintain a minimum General Fund unrestricted balance (less encumbrances and reappropriation carryovers) of at least 30% of operating and debt service expenditures for budget stability, cash flow and contingencies such as catastrophic events and unforeseen operating or capital needs. This is based on the risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United States and Canada.*

Accounting for the Reserve

As noted in side bar, under generally accepted accounting policies, General Fund balances are classified into the following categories:

- Non-spendable
- Restricted
- Unrestricted
    - Committed
    - Assigned
    - Unassigned

While categorizing fund balance as non-spendable or restricted is generally clear between cities, the classification of the unrestricted fund balance between committed, assigned and unassigned amounts varies between cities based on their budget and fiscal policies.

General Fund Balance Classifications

Under generally accepted accounting principles set by the Government Accounting Standards Board (GASB) in Statement No. 54, General Fund balance is classified into five components:

- ***Non-Spendable.*** Amounts that are not in spendable form, such prepaid items or inventories.
- ***Restricted.*** Amounts subject to *externally* enforceable restrictions imposed by outside third parties.
- ***Committed.*** Amounts whose use is constrained internally by the agency itself for specific purposes set by the governing body.
- ***Assigned.*** Amounts intended for specific purposes as determined by the governing body or others it has formally designated.
- ***Unassigned.*** Residual classification of spendable amounts available for other purposes.

For this reason, in setting the target as well as in benchmarking the Town's policy and actual results with comparable cities, it makes sense to conceptually organize reserves into two broad components, regardless of how they are classified :

Conceptual Components

Operating Reserve	Other Reserves
• Economic uncertainties • Contingencies for unforeseen operating or capital needs • Cash flow	• Insurance • Fleet replacement • Equipment/information technology replacement • Facilities • Capital projects • Uncompensated absences • Encumbrances/carryovers • Unfunded pension and retiree health care obligations

Within this conceptual framework, the Town's current policy establishes the following reserves:

Operating Reserve	Other Reserves
Committed balance of 25% of ongoing operating expenditures, minus one-time expenditures for: • Catastrophic events: 12.5% • Budget stabilization: 12.5% After assessing other reserve needs, any reserves in excess of 25% are allocated to the capital projects reserve. Under this policy, three is no unassigned General Fund balance.	Commitment and Assignments for: • Unfunded pensions/retiree health care obligations • Almond Grove street project • Encumbrances • Reappropriations • Open space • Capital projects • Compensated absences • Other special projects such as sustainability and strategic planning

The proposed policy sets the operating reserve target of 30% based on the unrestricted General Fund balance, less encumbrances and reappropriation carryovers. This is based on the Town's current policy of identifying reserves for other purposes besides budget stabilization and catastrophic events within the unrestricted balance; and ensuring that the commitment to the "operating reserve" target will be met first.

Setting the Base

The Town's current policy sets the "base" for the target as "ongoing operating expenditures, minus one-time expenditures." While the difference in result is likely to be insignificant, for clarity and transparency in calculating the reserve, a minor change in the base is recommended to "operating and debt service expenditures."

Continuing to Include the Reserve Policy in the Budget Document

Having a clearly stated reserve policy has its greatest value during the budget preparation, review and adoption process. According, this report recommends continuing the Town's practice of including the reserve policy in the budget document itself (along with other significant budget and fiscal policies), along with an analysis of changes in General Fund reserves.

DISCUSSION

The Power of Fiscal Policies

As we know from experience over the past 25 years, with the recession and recoveries of 1992-94, 2003-05 and the Great Recession beginning in 2008, good times come and go. But an organization's values shouldn't. And that's what fiscal policies are all about: articulating your financial management values before they are place under stress.

Stated simply, clearly articulated policies – and being guided by them – are the best way of ensuring long-term fiscal health. While the strength of the local economy and related General Fund revenues are important, no city is immune from economic downturns. In navigating tough fiscal times, effective financial management is the most critical factor for long-term fiscal success; and clearly articulated policies provide an essential framework and foundation for effective decision-making.

Fiscal policies are important in both good times and bad. The roots of fiscal adversity for most governments take hold in the good times, by making commitments that are not sustainable. They rarely surface in the "bad" times, when most agencies act on the "First Rule of Holes" (when you find yourself in one, stop digging).

They are both preventative and curative:

- Clearly articulated policies – and following them – help prevent problems from arising in the good times.

- And provide more effective responses when the inevitable bad times occur.

They are most powerful when it put in place before the need for them arrives, recognizing that not all financial decision-making situations can be reasonably anticipated.

Policies should be set based on the agency wants to be, which may not be where it is today. However, setting the course for where it wants to be significantly enhances its ability to get there. Accordingly, each policy should include a brief "compliance status." And if it is not there yet, the policy should provide the agency's plan for getting there. (As noted above, the Town's reserve policy includes this component.)

Policies Versus Plans. Planning is essential for success. However, plans change over time as actual results replace assumptions. But fiscal policies are the "north star" guiding the preparation of plans. They help making tough decisions easier by articulating values before they are put placed under stress by adverse circumstances. An organization can reasonably do something else, but policies are a powerful starting point for asking: but for "this" unexpected circumstance, what would we have otherwise done?

Lastly, of all the fiscal policies that cities should set, minimum reserve targets are among the most important.

Prudent Reserves Reflect Ability to Manage Risk, Not Fiscal Strength Per Se

Reserves – whether large or small – do not per se reflect on a city's financial capacity or underlying fiscal strength. There are much better indicators than reserves for this, most notably the ability over time for ongoing revenues to adequately meet day-to-day service needs, capital improvement goals and debt service requirements.

Stated simply, reserves are a risk management tool: how much can things go differently than the organization otherwise thought they would before it must take corrective action? Reserves can also serve as a bridge to the future, providing time to develop and implement thoughtful solutions.

Typical risks that reserves help mitigate include economic uncertainties, such as downturns in the economy and external revenue hits (like State takeaways); responding to local disasters; contingencies for unforeseen operating or capital needs; strategic opportunities; and cash flow.

What's the Right Amount? It depends on each agency's unique fiscal circumstances and capacity for risk. In answering this question, there are three sources to consider:

- Rating agency recommendations.
- Benchmarking: policies in comparable cities with a reputation for being well-managed.
- GFOA structured assessment approach.

❶ Rating Agency Recommendations

All three of the major rating agencies – Moodys, Standard and Poors and Fitch – identify reserve policies as one of their most important factors in assessing an agency's financial management and assigning bond ratings. While they do not provide recommended minimums, they are interested in their basis and the agency's track record in following them.

❷ Benchmark Analysis: Policies in Comparable Cities

When carefully prepared, benchmark analysis can be a powerful tool in assessing a wide-range of topics, including staffing, performance, financial condition, policies, organizational structure – and in this case – reserve policies. However, making meaningful comparisons requires carefully selecting both the data that will be collected ("metrics") and the benchmark cities to ensure they represent as close a match to the Town as possible, recognizing that a "perfect" match is not possible.

This means that along with selecting comparably sized cities, it is important to select cities that share other important service, economic, geographic and demographic characteristics with Los Gatos as well. Additionally, to avoid a "race to the bottom," comparison cities should also be selected that have a reputation for being well-managed and leaders in the use of "best practices."

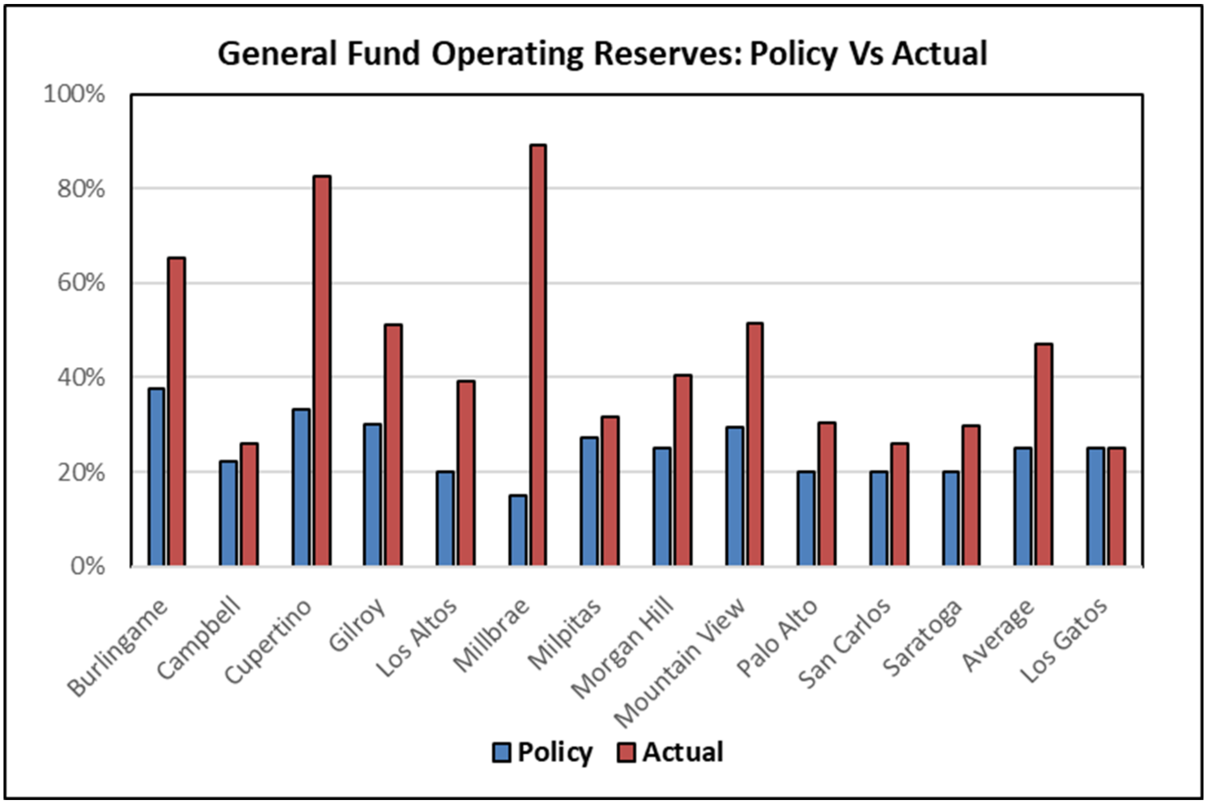
Selecting Benchmark Cities. While the process in selecting benchmark cities is discussed in greater detail in Appendix C, the following outlines the key criteria used in selecting twelve comparable cities:

- Similar population, ranging between 22,000 to 80,000.
- Location: All are located in Santa Clara or San Mateo County.
- Ten of the twelve have significant wildland interfaces.
- Suburban, affluent communities part of larger geographic area
- Similar range of services.
- Nine of the twelve have been used by Town before in fee and compensation studies.
- Use "best practices:" all have received the GFOA's excellence in financial reporting award and have formal reserve policies.

Of the 482 cities in California, 138 are larger than 15,000 in population and smaller than 45,000 (about 50% smaller and 50% larger than Los Gatos). Of these, 19 are suburban communities with significant wildland interfaces (including Los Gatos). A close look at these cities (along with five others that the Town has previously used for comparison fee and compensation studies: Cupertino, Gilroy, Milpitas, Mountain View and Palo Alto) resulted in the following twelve comparison cities (population in parenthesis):

- Burlingame (30,294)
- Campbell (42,696)
- Cupertino (60,091)
- Gilroy (55,615)
- Los Altos (31,361)
- Millbrae (22,854)
- Milpitas (74,865)
- Morgan Hill (44,513)
- Mountain View (81,527)
- Palo Alto (69,721)
- San Carlos (29,897)
- Saratoga (31,435)

Benchmarking Results. A detailed matrix of current reserve policies and actual results (based on audited results for the last completed year available for all cities, which is the fiscal year ended (FYE) June 30, 2017 in these twelve cities (along with Los Gatos) is provided in Appendix B, summarized as follows:



Note: As discussed in Appendix B, some cities' policies are set as a percent of revenues and/or fixed amounts. For comparison purposes, in these cases reserves have been converted to percent of operating expenditures.

As reflected in this summary:

- "Operating reserve" policies range from 15% to 38% of operating expenditures (excludes "other reserves," which are in place in nine of the twelve benchmark cities).
- The average reserve policy is 25%.
- All meet or exceed their target policy minimum, with actual reserves ranging from 26% to 89% of operating expenditures.
- The average actual operating reserve is 47%, or about twice the average policy.

❸ GFOA Structured Assessment Methodology

The GFOA has developed a structured assessment methodology for setting reserve levels in considering an agency's exposure to the following eight fiscal risk factors:

1. ***Vulnerability to Extreme Events and Public Safety Concerns.*** Major extreme events the community could reasonably be subject to and the likelihood and potential magnitude of loss for each event.

2. ***Revenue Source Stability.*** Volatility of each major revenue source based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, state or federal revenue takeaways and economic factors.

3. ***Expenditure Volatility.*** Spikes in expenditures, usually arising from special, non-recurring circumstances such as lawsuits; critical special projects without a funding source; or new state or federal spending requirements and unfunded mandates.

4. ***Leverage.*** Common examples include unfunded pensions and unfunded asset, as well as outstanding bonded indebtedness and compensated absences. Is the source of leverage very large? Does it have an off-setting funding source or asset?

5. ***Liquidity (Cash Flow).*** Intra-period cash imbalances, such as property taxes that are only received at two major points during the year (December and June).

6. ***Dependence of Other funds.*** Are there other funds that have a significant dependence on the General Fund?

7. ***Growth.*** Is significant growth a realistic possibility in the next three to five years? This includes assessing likely potential marginal costs associated with serving new growth compared with marginal revenues and resulting gaps.

8. ***Capital Projects.*** Are there high priority projects without a funding source, where reserves may be looked to as a funding source?

As discussed in greater detail in Appendix D, the methodology uses a scale of 5-1 in assessing how important reserves are in mitigating each risk:

5: Very important
4: Important
3: Neutral
2: Unimportant
1: Very unimportant

Since there are eight mitigation factors, total scores will range from 8 (the least risk) to 40 points (greatest risk). Along with these eight risk factors, the methodology also considers:

- City size (assumes larger cities have more mitigation strategies than smaller ones)
- Other reserve/contingency funds
- Borrowing capacity
- Benchmark study results

Depending on the results of this assessment, the GFOA methodology provides recommended targets ranging from a minimum of 16.6% of expenditures (60 days cash flow) to circumstances where more than 35% might be warranted.

The following summarizes the GFOA's rating scale.

GFOA Reserve Rating Scale

Rating	Target Minimum General Fund Reserve
8 -16	Minimal risk to retain through reserves. Consider target equal to the GFOA minimum recommended reserve of 16.6% (two months cash flow) of revenues/expenditures.
17-24	Low to moderate level of risk to retain through reserves. Consider reserve target of 17% to 25%.
25-31	Moderate to high level of risk to retain through reserves. Consider reserve target of 26% to 35%.
32-40	High level of risk to retain through reserves. Consider reserve target greater than 35%.

As detailed in Appendix D, the Town's rating under this methodology is 26, which indicates that the target minimum should be 30% (middle range of this scale).

Five of the assessment factors were largely responsible for this rating:

- Extreme events
- Liquidity/cash flow (19% needed to cover low points during the year)
- Unfunded capital projects
- Revenue stability
- Expenditure volatility

The other three factors (leverage, new development/growth and dependence of other funds on the General Fund) were not significant in this rating.

ALTERNATIVES

Setting the Minimum Target Reserve at Lower or Higher Amounts than 30%

Based on both the benchmarking results and the GFOA structured assessment methodology, the risks facing the Town support a reserve of 30% compared with the current target of 25%.

Mitigating Cash Flow with TRANS

A possible mitigation for cash flow needs (or responding in the short term to other risks) is the use of Tax and Revenue Anticipation Notes (TRANS).

TRANS are short-term borrowings by local government agencies who are not able to meet their cash flow needs during the year. They are typically issued early in the fiscal year and repaid before year-end.

At one time, many TRANS were issued as an investment strategy, since the proceeds could be invested at higher yields than their tax-exempt interest rate. However, this favorable variance between interest costs and yields has not been the case since the Great Recession.

Stated simply, while incurring debt to meet cash flow needs is an option, it is preferable to avoid it if possible. Moreover, TRANS are not free: there are financing and interest costs in issuing them.

Appendix E provides a cash flow analysis for the General Fund, which shows the need for 19% to cover several low points in the fiscal year, most notably in October/November prior to the receipt of property tax revenues (the Town's most important General Fund revenue source).

However, the Council is the ultimate "decider" in balancing risks and reserves. Stated simply, the Town's fiscal resources do not exist to amass large fund balances but rather, to deliver important services that help make Los Gatos a good place to live, work and play. On the other hand, prudent reserves are essential in helping assure stability in the delivery of services.

Accordingly, the Council could reasonably set reserves at levels that are lower or higher than the recommended target.

Lower Target than 30%. Given other reserves established by the Town, it would be reasonable to continue the minimum reserve policy at 25%.

Higher Target than 30%. Two of the benchmark cities have effective operating reserve policy targets that are greater than 30% (Burlingame at 38% and Cupertino at 33%). Additionally, seven cities had actual operating reserves at June 30, 2017 in excess of 30%:

Burlingame: 65%
Cupertino: 82%
Gilroy: 51%
Los Altos: 39%
Millbrae: 89%
Morgan Hill: 41%
Mountain View: 51%

Accordingly, a target higher than 30% would also be reasonable.

Segregating the Reserve into Separate Components

The proposed policy sets a unified reserve target of 30% to meet the aggregate of the risks it is intended to meet. Since not all factors are likely to come into play at the same time, this approach makes sense: "pooling" purposes serves to lower the overall reserve amount that might otherwise be needed to meet each of the risk factors individually. Moreover, budgeting and accounting for the reserve is simpler and more straightforward, as is communicating its purpose to the community and organization.

That said, there may be interest in continuing to separate the reserve into component parts. In that case, the following are recommended:

- Budget Stability: 15%
- Contingencies: 15%

Note: While cash flow also plays an important role in setting the minimum reserve target, if the other targets are maintained, they should also cover cash flow needs. However, this is another reason for setting a unified target rather than segregating it.

Setting the Base

As noted above, the Town's current policy sets the "base" for the target as "ongoing operating expenditures, minus one-time expenditures." This is a reasonable basis for setting the target and as such, it would make sense to continue using it.

However, while the difference in result is likely to be insignificant, for clarity and transparency in calculating the reserve, a minor change in the base is recommended to "operating and debt service expenditures." Additionally, debt service, until it is paid off, is also an ongoing cost, and as such, it makes sense to include it in the target base.

CONCLUSION

Establishing a reserve policy – and being guided by it – is among the most important of the Town's fiscal policies by mitigating financial risks. Based on the results of the benchmarking analysis and the GFOA structured assessment methodology, this report recommends that the minimum reserve target be set at 30% of operating and debt service expenditures.

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APPENDIX

A. Current General Fund Reserve Policy
B. Benchmark Analysis: Policies in Comparable Cities
C. Selection of Benchmark Cities
D. General Fund Reserve Risk Factors: GFOA Structured Assessment Methodology
E. Cash Flow Analysis
F. Consultant Background

Appendix A: Current Town Reserve Policy

TOWN OF LOS GATOS CALIFORNIA

COUNCIL POLICY MANUAL

Small Town Service *Community Stewardship* *Future Focus*

TITLE: General Fund Reserve Policy	**POLICY NUMBER: 4-03**
EFFECTIVE DATE: 05/16/2011	**PAGES: 4**
ENABLING ACTIONS:	**REVISED DATES:** 02/21/2017; 05/15/2018
APPROVED:	

PURPOSE

The purpose of this Policy is to establish a target minimum level of designated reserves in the General Fund to:

- Reduce the financial impacts associated with a disaster or catastrophic event;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy; and
- Demonstrate continued prudent fiscal management and creditworthiness.

BACKGROUND

The Town of Los Gatos has always maintained a high level of General Fund reserves, which has contributed to superior ratings by credit rating agencies; provided financial flexibility in economic downturns; contributed a source of investment income for General Fund operations; and assured financial coverage in the event of future emergencies.

GUIDING PRINCIPLES

Following sound financial practices and adhering to the Government Finance Officers of America~~n~~ (GFOA) recommendations, the Town's designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Volatility of revenue structure
- Changes in political environment
- Frequency of operating surpluses/deficits
- Cash flow management practices

TITLE: General Fund Reserve Policy	PAGE: 2 of 6	POLICY NUMBER: 4-03

The General Fund Reserve Policy is to be reviewed by the Town Council as part of the annual operating budget review and adoption process.

POLICY

The fund balance is the difference between the assets and liabilities reported in a governmental fund. Under current accounting standards, there are five separate components of fund balance, each of which identifies the extent to which the Town is bound to honor constraints on the specific purposes for which amounts can be spent.

The following components are defined by Governmental Accounting Standards Board (GASB) Statement No. 54 and shall constitute the Town's Fund Balance:

- *Nonspendable Fund Balance* (inherently nonspendable)
- *Restricted Fund Balance* (externally enforceable limitations on use)
- *Committed Fund Balance* (self-imposed limitations on use)
- *Assigned Fund Balance* (limitation resulting from intended use)
- *Unassigned Fund Balance* (residual net resources)

The first two components listed above are not specifically addressed in this Policy due to the nature of their restrictions. The example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This Policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

The accounting policies of the Town consider restricted fund balance spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts of the unrestricted classifications of fund balance could be used, the Town considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

<u>*Committed Fund Balance*</u>

The Town Council, as the Town's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal action taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose, unless the Town Council removes or changes the specific use through the same type of formal action taken to establish the commitment. The Town Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently at the final close of the fiscal year.

TITLE: General Fund Reserve Policy	PAGE: 3 of 6	POLICY NUMBER: 4-03

The Town currently sets aside funds into four committed reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, unfunded pension and Other Post-Employment Benefits (OPEB) obligations, and key infrastructure and capital projects. These include the Catastrophic Reserve, Budget Stabilization Reserve, Pension (OPEB) Reserve and Almond Grove Street Projects Reserve.

Catastrophic Reserve

Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Should unforeseen and unavoidable events occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic Reserve appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds.

The Town currently commits to maintaining this reserve at a minimum of 12.5% of General Fund ongoing operating expenditures (minus one-time expenditures).

Should a catastrophic disaster occur, the required reserve level should be adequate to meet the Town's immediate financial needs. For example, in the event of natural disaster, the Catastrophic Reserve would provide necessary coverage for basic operating expenses, including salary and benefits for safety and non-safety Town employees, while still meeting debt service obligations for approximately 60 days. This time frame would enable the Town to explore other available cash alternatives, including the use of internal service funds.

Budget Stabilization Reserve

Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time uses that will result in future efficiencies and/or budgetary savings. Examples of "economic triggers" and one-time uses include, but are not limited to:

- An unplanned, major event such as a catastrophic disaster requiring expenditures which exceed the General Fund Catastrophic Reserve;
- Drop in projected/actual revenue of more than five percent in property or sales tax, or other economically sensitive revenues;
- Budgeted revenue taken over by another entity exceeding $100,000;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in projected/actual revenue of more than five percent due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and

- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

The Town currently commits to maintaining this reserve at a minimum of 12.5% of General Fund ongoing operating expenditures (minus one-time expenditures).

Should a loss of the Town's single highest source of sales tax revenue occur, the required reserve level should be adequate to meet the Town's immediate financial needs. For example, the reserve level in the Budget Stabilization Fund would provide for an approximate 3-year transition period, giving the Town adequate time to realign its operating costs with available resources, while minimizing service impacts.

Pension/OPEB Reserve

Funds reserved under this category shall be used to further mitigate costs associated with pension and OPEB unfunded obligations. These funds will be used as a funding source for potential additional discretionary payments to pay down unfunded pension and other post-employment obligations, or held in the reserve account to be used as a supplemental funding source for unanticipated increases to the annual pension and other post-employment costs resulting from future actuarial assumptions and investment market volatility.

This Policy requires the Town to set aside additional annual discretionary payments (ADPs) to reduce the effective amortization period of the Town's pension unfunded actuarial liabilities from approximately 30 years to 20 years. To facilitate the implementation of this Policy, staff shall update the estimated unfunded amortization schedules in conjunction with the Town's and CalPERS actuaries. This process will coincide with the annual proposed budget process to determine the additional annual discretionary payment levels required to maintain the goal of lowering the amortization period from a 30-year to a 20-year amortization period for all prior year actuarial bases through FY 18/19. The ADP is currently projected at $390,000 for FY 2018/19. Per Council direction instead of paying future ADPs directly to CalPERS, the Town will deposit ADPs into the IRS 115 Trust Fund.

As part of the proposed budget for each forthcoming fiscal year, staff shall annually appropriate, to the extent possible, the amount of annual discretionary payments necessary to maintain the unfunded pension liability amortization shortening from 30 to 20 years.

In the event the annual amount required for additional discretionary payments is not available from operating revenues, the ADP shall be funded by a first lien on any one-time excess revenues above expenditures once other General Fund required reserve levels have been established at the appropriate levels as per the Town's General Fund Reserve Policy. If in any given year neither budgetary appropriations or a first lien on one-time excess revenues are sufficient to fund the annual ADP, that years ADP will be accrued to the following year until paid.

Additionally, effective upon the close of fiscal year 2015/16 and thereafter, if sufficient General Fund year-end savings are available and targeted reserve levels of 25% (12.5% for Catastrophic Reserve and 12.5% for Budget Stabilization Reserve) of the next fiscal year's operating budget and the funding the following year's proposed budget ADP have been met, upon final close of the fiscal year, a minimum of $300,000 annually shall be deposited into the Pension/OPEB Reserve fund. In addition, Council can assign additional amount deposited to the Pension/OPEB Reserve with a formal Council action from available year end savings.

Almond Grove Street Project Reserve

Funds reserved under this category shall be used to reconstruct the 10 streets identified in the Almond Grove Street Rehabilitation Project specification.

The Council awarded the bid in April 2017 allowing for $2.9 million savings within the project. The Council reappropriated the use of the savings through the FY 2017/18 budget process. The Almond Grove Reserve should be reduced by the identified $2.9 million savings. The Almond Grove Street Reserve balance will be reduced at each fiscal year end by the funds expended on the Almond Grove Street Rehabilitation Project during the fiscal year.

Assigned Fund Balance

Amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This Policy hereby delegates the authority to assign amounts to be used for specific purposes to the Town Manager for the purpose of reporting to assign amounts in the annual financial statements. A few examples of assigned fund balance follow.

- Encumbrances – material s and services on purchase order and contracts which are unperformed.

- Reappropriations – appropriated by the Council for specific projects or programs that were not completed and not encumbered by year end.

- GASB 31 Adjustments – unrealized investment gains that have been recorded in the financial statements in accordance with GASB 31.

Capital and Special Projects Reserve

Funds reserved under this category are designated for key infrastructure and capital/special projects as identified in the Town 5-year Capital Improvement Plan, as there is no ongoing funding source to support the Town's capital needs.

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Unassigned Fund Balance

At the end of each fiscal year, the Finance Department reports on the audited year-end budgetary fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end surplus which results in the General Fund balance exceeding the level required by this Reserve Policy shall be available for allocation for the following, subject to Council approval:

- Offset projected future deficits
- Anticipated intergovernmental fiscal impacts
- One-time funding, non-recurring needs

Upon funding any of the above reserve levels pursuant to this General Fund Reserve Policy, any remaining surplus of fiscal year revenues above expenditures shall be placed in the Capital and Special Projects Reserve for appropriation within the Capital Improvement Program budget.

Replenishment of Unreserved Fund Balance

In keeping with the principles discussed in this Policy, when either fund is used, Town Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures.

APPROVED AS TO FORM:

Robert Schultz

Robert Schultz, Town Attorney

Appendix B: Reserve Policy Benchmarks

The following presents the results of the benchmark analysis of reserve policies in twelve comparable California cities. Appendix C provides the basis for how these benchmark cities were selected. (The use of twelve cities reflects the Town staff's direction to expand the selection from nine to twelve cities as outlined in the Alternatives section of Appendix C.)

City	General Fund Operating Reserve		Other General Fund Reserves (Note 3)
	Policy	Actual (Notes 1 and 2)	
Burlingame	• Economic stability reserve: 24% of budgeted revenues • Catastrophic reserve: $2.0 million • Contingency reserve: $500,000	65%	• Encumbrances
Campbell	• Economic fluctuation stabilization: $6.0 million • Emergency: 10% of revenues	26%	• General Plan update • Council reserve • Civic center plan • Compensated absences • Capital projects • Heritage theater • Insurance
Cupertino	• Economic uncertainty: $19.0 million • Other contingencies: $500,000	82%	• Pensions • Encumbrances
Gilroy	• Contingency for unbudgeted costs or revenue shortfall: 20% of expenditures • Economic stability: 10% of expenditures	51%	• None
Los Altos	• 20% of operating expenditures	39%	• Pensions • Retiree health care • Technology • Capital and equipment
Millbrae	• 15% of expenditures	89%	• None

Appendix B: Reserve Policy Benchmarks

City	General Fund Operating Reserve		Other General Fund Reserves (Note 3)
	Policy	Actual (Notes 1 and 2)	
Milpitas	• Budget stabilization: $8.3 million • Contingency: 16.67% of operating expenditures	32%	• Pensions • Unpaid claims • Capital projects • Other contracts
Morgan Hill	• 25% of revenues	41%	• None
Mountain View	• Budget contingency: 25% of budgeted expenditures, net of savings	51%	• Development services • Earned lease revenue • Property management • Site maintenance • Capital improvements • Open space • Strategic property acquisitions • Childcare commitment • Compensated absences
Palo Alto	• Budget stabilization: 20% of operating expenditures	30%	• Reappropriations • Other purposes
San Carlos	• Economic uncertainties: 20% of expenditures	26%	• Strategic property acquisition • Unfunded liabilities • Facility/infrastructure improvements • Emergency
Saratoga	• 20% of expenditure appropriations, net of transfers out	30%	• Hillside stability • Future capital and stability • Facility replacement • Compensated absences • Development services

Appendix B: Reserve Policy Benchmarks

<table>
<tr><th rowspan="2">City</th><th colspan="2">General Fund Operating Reserve</th><th rowspan="2">Other General Fund Reserves (Note 3)</th></tr>
<tr><th>Policy</th><th>Actual (Notes 1 and 2)</th></tr>
<tr><td>Los Gatos</td><td>• 25% of ongoing operating expenditures, minus one-time expenditures as follows:
- Catastrophic: 12.5%
- Budget Stability: 12.5%</td><td>25%</td><td>• Pensions and retiree health care
• Almond Grove street project
• Open space
• Sustainability
• Strategic planning
• Capital projects
• Encumbrances
• Compensated absences</td></tr>
</table>

1. Based on audited results for the last completed year available for all cities, which is the fiscal year ended (FYE) June 30, 2017.

2. As noted above, some cities' policies are set as a percent of revenues and/or fixed amounts. For comparison purposes, in these cases actual reserves have been converted to percent of operating expenditures and are net of any other General Fund reserves.

3. These are other General Fund commitments or assignments and exclude reserves in other governmental funds, enterprise funds and internal service funds.

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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

MEMORANDUM

November 29, 2018

TO: Arn Andrews, Assistant City Manager
Stephen Conway, Finance Director
Gitta Ungvari, Finance and Budget Manager

FROM: Bill Statler

SUBJECT: RESERVE POLICY: SELECTION OF BENCHMARK CITIES

RECOMMENDATION

Select the combined nine cities used by the Town for comparison purposes in recent fee and compensation studies in benchmarking reserve policies (population as of January 1, 2018 in parentheses):

- Campbell (42,696)
- Cupertino (60,091)
- Gilroy (55,615)
- Los Altos (31,361)
- Milpitas (74,865)
- Morgan Hill (44,513)
- Mountain View (81,527)
- Palo Alto (69,721)
- Saratoga (31,435)

Alternative. As discussed below, if the Town is interested in expanding the selection to include cities that are geographically close to Los Gatos, have similar wildland interface characteristics and would expand the diversity of population size at the lower end of the range, then the following three additions are recommended.

- Burlingame (30,294)
- Millbrae (22,854)
- San Carlos (29,897

Reserve Policy: Selection of Benchmark Cities

OVERVIEW

The workscope for the reserve analysis authorized by the Town on November 9, 2018 includes benchmarking reserve policies in six to ten comparable cites. These nine cities share the following characteristics with Los Gatos:

- Similar population, ranging between 30,000 to 80,000
- Northern California location (in fact, all are located near each other within Santa Clara County)
- Suburban, affluent communities part of a larger geographic area
- Similar range of services

Suburban/Wildland Interface. Except for Campbell and Mountain View, these cities also share significant suburban/wildland interfaces. Like Los Gatos. wildland areas are included within the city limits (or immediately adjacent) in Cupertino, Gilroy, Milpitas. Morgan Hill and Saratoga; and very near (and thus also a threat) in Los Altos and Palo Alto.

Accordingly, since the Town has already identified these as comparable cities for other purposes, it makes sense to also use them as benchmark agencies in comparing reserve policies. Nevertheless, as discussed below under Alternatives, I have also explored other options. While none of these others offered clear advantages over the nine cities the Town has already identified, three cities in San Mateo County have similar wildland interface characteristics and would expand the diversity of population size at the lower end of the range that the Town may want to consider adding: Burlingame, Millbrae and San Carlos.

BACKGROUND

As discussed above, the work program includes a "benchmark" analysis of how the Town's current reserve policy compares with six to ten similar cities. When carefully prepared, benchmark analysis can be a useful tool in assessing a wide-range of topics, including staffing, performance, organizational structure – and in this case – reserve policies. However, making meaningful comparisons requires carefully selecting the benchmark agencies to ensure they represent as close a match to the Town as possible, recognizing that a "perfect" match is not possible.

This means that along with selecting comparably sized cities, it is important to select cities that share other important service, economic, geographic and demographic characteristics with Los Gatos as well. Additionally, to avoid a "race to the bottom," comparison cities should also be selected that have a reputation for being well-managed and leaders in the use of "best practices."

ALTERNATIVES

There are 482 cities in California. As presented in Table 1, 136 of them have populations between 15,000 and 45,000 (about 50% smaller and 50% larger than Los Gatos). The four cites already used by Los Gatos for comparison purposes that fall within this population range are highlighted in blue, as well as the Town itself. The other five cities that the Town currently uses for comparison purposes that are larger than 45,000 are also provided at the end of Table 1.

Table 1 also highlights in green (Southern/Central Coast California) and purple (Northern California) nineteen other suburban cities that have significant wildland interfaces in this population range. For ease of comparison, Table 2 presents these "candidate" benchmark cities separately by region, summarized as follows:

Southern/Central Coast California	Northern California
• Agoura Hills • Atascadero • Calabasas • La Canada Flintridge • Monrovia • San Gabriel • Santa Paula • South Pasadena • West Hollywood	• Burlingame • Danville • Lafayette • Millbrae • Moraga • Orinda • Pacifica • Rohnert Park • San Carlos • Windsor

In reviewing these cities, there are no compelling reasons to include them over the nine cities that the Town as already identified. However, keeping in mind that the work program target was to select six to ten cities, if the Town wants to expand this list, then adding Burlingame (30,294), Millbrae (22,854) and San Carlos (29,897) would make sense:

- Like the other nine cities, they are geographically close to Los Gatos (all three are in San Mateo County).

- They would expand the diversity of population size at the lower end of the range.

While this would result in 12 benchmark cities (two more than the work program target), this is a workable result.

ATTACHMENTS

- Table 1: California Cities: Population 15,000 to 45,000

- Table 2: California Cities: Population 15,000 to 45,000 with Suburban/Wildland Interfaces

Appendix C: Table 1
CALIFORNIA CITIES: POPULATION 15,000 to 45,000

City	County	1/1/2018 Population
Adelanto	San Bernardino	35,293
Agoura Hills	Los Angeles	20,878
Albany	Alameda	19,053
American Canyon	Napa	20,990
Arcata	Humboldt	18,398
Arroyo Grande	San Luis Obispo	17,912
Artesia	Los Angeles	16,792
Arvin	Kern	21,696
Atascadero	San Luis Obispo	31,147
Atwater	Merced	31,235
Banning	Riverside	31,282
Barstow	San Bernardino	24,411
Bell	Los Angeles	36,325
Bell Gardens	Los Angeles	43,051
Belmont	San Mateo	27,388
Benicia	Solano	27,499
Beverly Hills	Los Angeles	34,504
Blythe	Riverside	19,389
Brawley	Imperial	27,417
Brea	Orange	44,890
Burlingame	San Mateo	30,294
Calabasas	Los Angeles	24,296
Calexico	Imperial	41,199
Campbell	Santa Clara	42,696
Chowchilla	Madera	18,835
Claremont	Los Angeles	36,446
Clearlake	Lake	15,917
Coalinga	Fresno	16,791
Corcoran	Kings	21,450
Coronado	San Diego	21,683
Cudahy	Los Angeles	24,343
Culver City	Los Angeles	39,860
Dana Point	Orange	34,071
Danville	Contra Costa	44,396
Desert Hot Springs	Riverside	29,742
Dinuba	Tulare	24,873
Dixon	Solano	19,896
Duarte	Los Angeles	22,013
East Palo Alto	San Mateo	30,917
El Cerrito	Contra Costa	24,939
El Paso de Robles	San Luis Obispo	31,559
El Segundo	Los Angeles	16,784
Eureka	Humboldt	26,362
Fillmore	Ventura	15,953
Foster City	San Mateo	33,490
Galt	Sacramento	26,018
Goleta	Santa Barbara	31,949
Greenfield	Monterey	18,007

Appendix C: Table 1
CALIFORNIA CITIES: POPULATION 15,000 to 45,000

City	County	1/1/2018 Population
Hercules	Contra Costa	26,317
Hermosa Beach	Los Angeles	19,673
Hollister	San Benito	36,703
Imperial	Imperial	19,372
Imperial Beach	San Diego	28,163
Kerman	Fresno	15,083
La Canada Flintridge	Los Angeles	20,683
La Palma	Orange	15,948
La Puente	Los Angeles	40,686
La Quinta	Riverside	41,204
La Verne	Los Angeles	33,260
Lafayette	Contra Costa	25,655
Laguna Beach	Orange	23,309
Laguna Hills	Orange	31,818
Laguna Woods	Orange	16,597
Lathrop	San Joaquin	24,268
Lawndale	Los Angeles	33,607
Lemon Grove	San Diego	26,834
Lemoore	Kings	25,892
Loma Linda	San Bernardino	23,946
Lomita	Los Angeles	20,715
Lompoc	Santa Barbara	43,599
Los Altos	Santa Clara	31,361
Los Banos	Merced	40,986
Los Gatos	Santa Clara	30,601
Manhattan Beach	Los Angeles	35,991
Marina	Monterey	22,424
Martinez	Contra Costa	38,097
Maywood	Los Angeles	28,044
McFarland	Kern	15,105
Menlo Park	San Mateo	35,268
Millbrae	San Mateo	22,854
Monrovia	Los Angeles	38,787
Montclair	San Bernardino	39,326
Monterey	Monterey	28,323
Moorpark	Ventura	37,044
Moraga	Contra Costa	16,991
Morgan Hill	Santa Clara	44,513
Norco	Riverside	26,761
Oakdale	Stanislaus	23,324
Oakley	Contra Costa	41,742
Orinda	Contra Costa	19,199
Oroville	Butte	18,144
Pacific Grove	Monterey	15,660
Pacifica	San Mateo	38,418
Paradise	Butte	26,572
Parlier	Fresno	15,493
Patterson	Stanislaus	22,679

Appendix C: Table 1
CALIFORNIA CITIES: POPULATION 15,000 to 45,000

City	County	1/1/2018 Population
Pinole	Contra Costa	19,236
Pleasant Hill	Contra Costa	35,068
Port Hueneme	Ventura	23,929
Rancho Mirage	Riverside	18,738
Rancho Palos Verdes	Los Angeles	42,723
Reedley	Fresno	26,390
Ridgecrest	Kern	28,822
Ripon	San Joaquin	15,847
Riverbank	Stanislaus	25,244
Rohnert Park	Sonoma	43,598
San Carlos	San Mateo	29,897
San Dimas	Los Angeles	34,507
San Fernando	Los Angeles	24,602
San Gabriel	Los Angeles	40,920
San Juan Capistrano	Orange	36,759
San Pablo	Contra Costa	31,593
Sanger	Fresno	26,648
Santa Fe Springs	Los Angeles	18,335
Santa Paula	Ventura	31,138
Saratoga	Santa Clara	31,435
Seal Beach	Orange	25,984
Seaside	Monterey	34,270
Selma	Fresno	24,742
Shafter	Kern	19,271
Soledad	Monterey	26,246
South El Monte	Los Angeles	20,882
South Lake Tahoe	El Dorado	21,892
South Pasadena	Los Angeles	26,047
Stanton	Orange	39,470
Suisun City	Solano	29,192
Temple City	Los Angeles	36,411
Truckee	Nevada	16,681
Twentynine Palms	San Bernardino	27,046
Ukiah	Mendocino	16,226
Walnut	Los Angeles	30,457
Wasco	Kern	27,691
West Hollywood	Los Angeles	36,723
Wildomar	Riverside	36,287
Windsor	Sonoma	28,060
Yucca Valley	San Bernardino	21,834
Other Comparison Cities		
Cupertino	Santa Clara	60,091
Gilroy	Santa Clara	55,615
Milpitas	Santa Clara	74,865
Mountain View	Santa Clara	81,527
Palo Alto	Santa Clara	69,721

Appendix C: Table 2
CALIFORNIA CITIES: POPULATION 15,000 to 45,000
Suburban/Wildland Interface

City	County	1/1/2018 Population
Southern/Central Coast California		
Agoura Hills	Los Angeles	20,878
Atascadero	San Luis Obispo	31,147
Calabasas	Los Angeles	24,296
Monrovia	Los Angeles	38,787
La Canada Flintridge	Los Angeles	20,683
San Gabriel	Los Angeles	40,920
Santa Paula	Ventura	31,138
South Pasadena	Los Angeles	26,047
West Hollywood	Los Angeles	36,723
Northern California		
Burlingame	San Mateo	30,294
Danville	Contra Costa	44,396
Lafayette	Contra Costa	25,655
Millbrae	San Mateo	22,854
Moraga	Contra Costa	16,991
Orinda	Contra Costa	19,199
Pacifica	San Mateo	38,418
Rohnert Park	Sonoma	43,598
San Carlos	San Mateo	29,897
Windsor	Sonoma	28,060

Appendix D: GFOA Structured Assessment Methodology

Analyzing the General Fund Reserve Risk Factors

The sections below provide guidance on analyzing the risk factors described in Chapter 4 on general fund reserves. Each heading corresponds to a worksheet in the Excel workbook that is available at www.gfoa.org/financialpolicies. The blue cells in the sheet are entry cells. There should be no need to type in other cells. Complete the sheets starting with the left-most and continue all the way to the final sheet at the right.

The first eight sheets ask you to analyze each risk factor in the book. First, you identify your basic sources of risk. Then you assess the level of risk you face. Next, you identify other available risk mitigation approaches. The sections below provide more specific guidance on how to accomplish this for each risk factor. Finally, you decide how important it is for your government to retain risk through general fund reserves. The level of importance is indicated by assigning a 1 through 5 score, where 5 indicates the greatest need to retain risk. Each sheet contains guidelines to help you decide the most appropriate score for each risk factor.

The ninth and final sheet helps you to zero in on a final reserve target by summarizing the results of the prior eight sheets and bringing in other drivers of reserve size. Note that this sheet does not provide you with a precise suggested target. Rather it suggests a broad range and strategies for arriving at a final target.

Below is more specific guidance for analyzing the risk factors in the first eight sheets.

Vulnerability to extreme events and public safety concerns

Identify Risks. List out the major extreme events to which the community could reasonably be subjected. This could include both natural and man-made events. Public safety professionals may have a community disaster preparedness plan that could help identify these risks; linking the reserve analysis to such a plan would increase the credibility of the resulting policy.

Assess Risks. Consider the potential magnitude of loss for each event. The magnitude of loss should be based on past experiences with similar extreme events or reasonable estimates based on the disaster preparedness plan (note that the estimate is not necessarily a worst-case scenario).

Identify Other Risk Mitigation Approaches. If extreme events a are serious risk for the community, also consider risk transfer options. Might more comprehensive insurance coverage be a better option than very high levels of fund balance? If the source of risk is man-made, such as the potential for an accident at a hazardous chemical plant, might the chemical company be able to take greater responsibility for the risk they pose to the community? Also consider how quickly federal assistance can be accessed and the speed with which funds spent responding to a disaster might be reimbursed.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to extreme events.

Revenue Source Stability

Identify Risks. Start by listing out major revenue sources.

Assess Risks. Consider the volatility of each source, based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, and economic factors.

Identify Other Risk Mitigation Approaches. Think about other approaches that the government has to deal with declining revenues. This might include means to easily reduce variable costs or the ability to access other sources of funding.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to revenue stability.

Expenditure Volatility

Identify Risks. Start by listing sources of potential spikes in expenditure (usually arising from special, non-recurring circumstances) that could be expected to occur within the next three to five years. Examples might include lawsuits against the government or critical special projects without a funding source. Typically, recurring sources of expenditure volatility, such as health care benefit costs, would not be included because they should be dealt with in the context of an annual budget process. An exception to this might be highly variable and difficult-to-predict costs, such as energy or fuel (in the case of a fleet).

Assess Risks. Enumerate a reasonable estimate of the potential cost of each source (i.e., the magnitude of the risk), taking into account the probability of it occurring (i.e., an unlikely event is less of a risk than a more likely event of similar potential loss).

Identify Other Risk Mitigation Approaches. Think about other approaches to dealing with these expenditure spikes. For example, the finance officer may find that some events (like an essential special project) have a very high chance of occurring, but will not occur for a number of years into the future. In this case, the finance officer could suggest a “sinking fund” where the project would be gradually funded over time. This could be made a commitment or assignment within the fund balance to help differentiate it from funds used to manage more uncertain risks. A similar approach could be used for known lawsuits.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to expenditure spikes.

Leverage

Identify Risks. Start by listing major sources of leverage. Common examples include pensions, unfunded asset maintenance, and debt.

Assess Risks. Then assess each source's implications for the organization's future financial flexibility by consider the size of the obligation. Is the source of leverage very large? Does it have an off-setting funding source or asset?

Identify Other Risk Mitigation Approaches. It is often better to use other approaches to risk management on these sources of leverage, rather than retaining the risk through reserves. For example, if unfunded asset maintenance is a problem, then the finance officer might use an asset maintenance plan (or other suitable estimate) to demonstrate the magnitude of the risk and encourage the governing board create a special set-aside to begin funding this liability – and avoid managing this risk with general fund reserves. In another example, if unfunded pension liabilities are an issue, the organization should develop a strategy to pay down those liabilities. In this situation, the finance officer could point out how pension liability constrains the financial flexibility of the organization, thereby decreasing the reserve's ability to manage other types of risk.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to leverage.

Liquidity

Identify Risks. List major sources of intra-period cash imbalances. A good example is property taxes that are only received at one or two points during the year.

Assess Risks. Describe the size of the problem created by these sources of imbalance. Does it have the potential to significantly interfere with operations?

Identify Other Risk Mitigation Approaches. To what extent can tools like internal borrowing or tax anticipation notes provide a cost-effective alternative to keeping a reserve?

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to liquidity.

Other Funds' Dependency

Identify Risks. Start by listing other funds that have significant dependence on the general fund. Dependence will usually be indicated by regular operating transfers that are an unusually high percentage of the receiving fund's expenditure budget.

Assess Risks. Assess the level of reserves in these other funds. Are reserves low? If so, is this fund subject to potential risks that could require a substantial draw on reserves? If so, is the general fund expected to backstop this fund?

Identify Other Risk Mitigation Approaches. A major point for the finance officer to explore is whether the general fund should be "back stopping" these other funds in the first place. For example, an under-performing enterprise fund may be receiving operating transfers not because it is good public policy, but because the political will has not been mobilized to make the enterprise self-sufficient or to divest of it.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to other funds.

Growth

Identify Risks. This factor is only relevant if significant growth is a realistic possibility in the next three to five years. Start by identifying major potential sources of growth.

Assess Risks. Estimate the potential marginal costs associated with serving new growth and compare it to marginal revenues (this information should be available from long-term financial plans and forecasts). If there is a gap due to significant timing differences between when revenue is received from growth and when expenditures are made on services for that growth, then reserve targets could be adjusted to account for that gap.

Identify Other Risk Mitigation Approaches. Special growth or impact fees could be assessed at the time of construction to avoid this risk. For example, if a new development is expected to generate $10M annually in new taxes starting three years in the future (but nothing before then), but costs $7M to service starting in two years, then a reserve (or impact fees) may be needed. If the gap between revenue growth and service expenditures is due to a structural mismatch between costs and revenues (i.e., the growth does not pay for itself), then the government should re-examine its tax-fee structures, service provision methods, and/or land use plans to correct this imbalance.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to growth.

Capital Projects

Identify Risks. Use a capital improvement plan to determine if there are high priority projects without a funding source.

Assess Risks. Assess whether decision-makers might consider pay-as-you-go financing, using general fund reserves as at least part of the source.

Identify Other Risk Mitigation Approaches. If pay-as-you-go financing is something decision-makers might consider, then the finance officer may wish to broach the possibility of a commitment or assignment for the project so that pay-as-you-go financing does not detract from the general reserve's ability to manage other risks.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to capital projects.

Your Target

Step 1. Determine Your TotalSscore from the Risk Factors
Step 1 on this sheet totals your scores from the foregoing sheets.

Step 2. Preliminary Analysis
In Step 2, find your score in the ranges presented and consult the analytical guidance. This is preliminary, as the analytical guidance will be refined in the next steps.

Step 3. Consider the Impact of Government Size, Budget Practices, and Borrowing Capacity
In Step 3, you consider additional drivers of fund balance: government size, budget practices, and borrowing capacity. In each blue box, enter the indicated number of positive or negative points for each driver (totaling them for each driver, as might be needed).

Size of Government. GFOA's analysis of the thousands of governments that participate in GFOA's comprehensive annual financial report presentation award program shows a very weak direct relationship between population size and size of fund balance. In fact, a statistical analysis of the data shows that although there is an inverse relationship between population size and size of fund balance, only about between 10% and 20% of the variation in fund balance size between governments can be explained by population.[i] Hence, the sheet only provides points for the very largest and smallest governments.

Budget Practices. The presence of formal or informal contingencies already built into the budget may relieve the need to carry some additional reserves. The finance officer can search directly for the presence of informal contingencies by searching prior years' budget-versus-actual reports for areas with consistent positive variances – this may indicate areas that are consistently over-budgeted. The finance officer can also look indirectly for contingencies by examining the budgeting system for practices that unintentionally encourage informal contingencies. For example, systems that provide little flexibility for managers to transfer budgets between different accounts will encourage managers to build additional slack into their budget since they do not have the ability to move surpluses in one account to counteract a deficit in another.

Borrowing Capacity. You can evaluate your borrowing capacity by comparing your current level of debt against your financial policy for debt. If no policy standards are in place, consider the rating agency guidelines below.

Standard and Poor's Debt Ratios and Ranges[ii]

	Overall Net Debt per Capita	Overall Net Debt as a % of Market Value	Debt Service as a % of Expenditures
Low	Below $1,000	Below 3%	Below 8%
Moderate	$1,000 - $3,000	3% - 6%	8% - 15%
Moderately High	$3,000 - $5,000	6% - 10%	15% - 20%
High	Above $5,000	Above 10%	Above 25%

The finance officer should also consider internal borrowing capacity. Inventory reserves in other funds and assess the extent to which these reserves are necessary to deal with the risks with which these funds are faced. If other funds have sizable reserves compared to the risks they are retaining, they could serve as an alternative to larger general fund reserve targets. However, internal borrowing should not be considered an alternative without a strong internal borrowing policy in place.

Step 4. Consider the Impact of Commitments/Assignments, Outsider Perceptions, and Political Support

In Step 4, you consider the drivers of Commitments/Assignments, Outsider Perceptions, and Political Support. Put an "X" in the blue cell next to all the statements that apply to you.

Commitments or Assignments. Think about all assignments and commitments that impact fund balance. Then assess how constraining those assignment and commitments are and how available that portion of the fund balance might be to retain risk. For instance, a board might "commit" a certain amount to a "rainy day" reserve. This sort of commitment would be very consistent with the purpose of retaining the types of risk defined in this analysis, and so could be considered part of the total amount of general fund balances available for a reserve. Conversely, an assignment or commitment for asset maintenance or a special project is intended to be spent on a particular use, and therefore is not really available for risk retention. These sorts of uses should be subtracted from the definition of fund balance available for a reserve.

Outsider Perceptions. Take stock of relevant outsider perceptions. What have rating agencies said in the past about your level of reserves? Could failure to carry a certain level of reserves contribute to a ratings downgrade? Also consider citizen perspectives – ould having too high of a reserve provoke a backlash? Take these perceptions into account when settling on a final reserve target.

Political Support. A reserve target must be formally adopted by the board in order to do much good. Therefore, consider what might lead to a politically acceptable target level. For instance, governing boards often place great weight on benchmarking studies with similar organizations – a proposed target might garner more support if it is seen as consistent with the practices of comparable governments.

Step 5: Putting It All Together

The green cell contains a revised risk score, which takes account of your point totals from Step 3. Using this revised score, revisit the ranges and analytical guidance in Step 2.

Also, consider the boxes you checked in Step 4. Add the advice from these statements to your final analytical guidance from Step 2. Using this advice, you can finalize a reserve target and present it to the board.

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[i] The range comes from using different permutations of the data set, such as removing or including certain outliers.

[ii] The ratios are taken from David G Hitchcock, Karl Jacob, and James Wiemken, "Key General Obligation Ratio Credit Ranges – Analysis vs. Reality," Standard & Poor's: 2008. However, the ranges have been modified slightly by the authors to provide a more streamlined presentation. Specifically, in the original document, the overall net debt per capita "low" range is $1,000 to $2,000 and the "moderate" range is $2,000 to $5,000.

Appendix D: GFOA Structured Assessment Methodolgy

Vulnerability to Extreme Events

1. Identify Risks

What extreme events are you at risk for?

A	Fire
B	Flood
C	Drought
D	Earthquake

2. Assess Risks

What is your vulnerability to each extreme event, given past experience?

A	Very High: Wildland Interface
B	High (but City not directly responsible for flood protection)
C	High (but City not responsible for water service)
D	Low probability; depending on epicenter, losses could be significant

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk (i.e., manage it without reserves)

A	FEMA reimbursement
B	FEMA reimbursement
C	State drought relief, possible FEMA reimbursement
D	FEMA reimbursement
E	FEMA reimbursement

Note: While significant reimbursements from FEMA are likely, it is also likely that there will be significant lags between when recovery costs are incurred and when payments will be received. Lastly, based on experiences in other cities, even under the best of circumstances, it is unlikely that the City will be reimbursed for all recovery costs. And even where costs are largely recovered, there is no reimbursement for key lost revenues - like property tax, sales tax and TOT - during the disaster and recovery period.

4. Considering the above, how important for you is it to retain the risks of extreme events through reserves ?

5 < Enter your score here

5 **Very important.** We are subject to extreme events of severe potential magnitude which would require a quick and decisive response from our government. There are few alternative risk management approaches.

4 **Important.** We are subject to extreme events of severe potential magnitude, but our government does not have an important disaster response role and/or we have other risk management alternatives.

3 **Neutral.** We do not face an unusually high or low level of risk from extreme events.

2 **Unimportant.** We are subject to one or two types of significant extreme events and we have other risk management options.

1 **Very unimportant.** We are subject to very few, if any, potential extreme events of significant potential damage

Appendix D: GFOA Structured Assessment Methodolgy

Revenue Source Stability

1. Identify Risks

What are your major revenue sources?

A	Property Tax/VLF Swap (38%)
B	Sales Tax (18%)
C	Franchise Fees (6%)
D	TOT (5%)
E	Business License Tax (4%)
F	State Takeaways (Always a Threat)

Note: Top 5 revenues account for over 70% of total.

2. Assess Risks

How stable are your revenue sources?

A	Historically stable, but experienced downturn/flattening in "Great Recession"
B	Subject to significant swings with economy
C	Stable
D	Subject to significant swings with economy
E	Subject to swings with economy
F	Historically significant

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk (i.e., manage it without reserves)

Limited in all cases

4. Considering the above, how important for you is it to retain the risks of revenue instability through reserves ?

4 < Enter your score here

5 **Very important.** We rely on just one or two sources of revenue, and they are unstable

4 **Important.** We rely on unstable sources for a significant portion of our revenue and/or have particular unstable payers as part of our tax base (e.g., sales tax from an industry with volatile sales)

3 **Neutral.** We do not face an unusually high or low level of risk from revenue instability

2 **Unimportant.** While some portion of our revenue base has instability, the majority of revenues are pretty stable.

1 **Very unimportant.** Our revenues are very stable and diverse.

Appendix D: GFOA Structured Assessment Methodolgy

Expenditure Volatility

1. Identify Risks

What are sources of potential expenditure spikes?

A	Increased pension costs
B	Retiree health care
C	Unexpected infrastructure repairs
D	State/federal mandates

2. Assess Risks

What is the potential cost of these spikes?

A	Based on CalPERS investment losses and approved funding methodology changes, very high
B	Significant
C	Unknown
D	Moderate

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of these potential spikes? (i.e., manage it without reserves)

A	Need to address on ongoing basis
B	Need to address on ongoing basis
C	Unknown
D	Limited (legislative advocacy)

4. Considering the above, how important for you is it to retain the risks of expenditure spikes through reserves ?

4 < Enter your score here

5 **Very important.** There are expenditure spikes with very high potential to open a significant hole in our budget.

4 **Important.** We are subject to important potential expenditure spikes, such that we need reserves but we also have other risk mitigation approaches available.

3 **Neutral.** We do not face an unusually high or low level of risk from expenditure spikes

2 **Unimportant.** There are one or a few potential spikes but the risk of them occurring is low, the impact not great and/or we have other risk management options.

1 **Very unimportant.** We have no important risk from expenditure spikes.

Appendix D: GFOA Structured Assessment Methodolgy

Leverage

1. Identify Risks

What are major sources of leverage you are subject to?

A	Pension liabilities
B	OPEB liabilities
C	
D	

2. Assess Risks

What are the implications of leverage for the organization's financial flexibility?

A	Higher future costs
B	
C	
D	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of leverage? (i.e., manage it without reserves)

A	Need to address these higher cost on an ongoing basis.
B	
C	
D	

4. Considering the above, how important for you is it to retain the risks of leverage through reserves ?

3	< Enter your score here
5	**Very important.** We are subject to significant leverage and have no other risk management approach
4	**Important.** We are subject to significant leverage and do not have equally significant offsetting risk management approaches.
3	**Neutral.** We do not face an unusually high or low level of risk from leverage
2	**Unimportant.** We have one or two sources of leverage, but these are largely addressed with other risk management strategies.
1	**Very unimportant.** We have no important sources of leverage that aren't already managed with out reserves.

Note: Given unfunded liabilities, normally this would be assigned a "5." However, the City has proactively addressing set aside separate reserves for this as well as making significant payments to reduce unfunded liabilities.

Appendix D: GFOA Structured Assessment Methodolgy

Liquidity

1. Identify Risks

What are your major sources of potential intra-period cash imbalances? (See cash flow worksheet)

A	Property tax collections in November-January and April-June (38% of revenues):
B	Gas and electric franchise payments in April
C	Business tax collections in January and February
D	Pension obligation payments in July
E	COP debt service payments

2. Assess Risks

How likely are these risks to occur and what is their potential magnitude?

A	Ongoing
B	Ongoing
C	Ongoing
D	Ongoing
E	Ongoing

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of liquidity? (i.e., manage it without reserves)

A	Tax/revenue anticipation notes - but results in added interest costs
B	Borrow from other funds - but adds "leverage" to them
C	

4. Considering the above, how important for you is it to retain the risks of liquidity spikes through reserves ?

5	< Enter your score here

5 **Very important.** We have very important potential intra-period imbalances with few risk management alternatives.

4 **Important.** We have important potential intra-period imbalances, but do have some off-setting risk management alternatives.

3 **Neutral.** We do not face an unusually high or low level of risk from intra-period cash imbalances.

2 **Unimportant.** We have some minor potential intra-period cash imbalances.

1 **Very unimportant.** Our cash flows are very stable.

Appendix D: GFOA Structured Assessment Methodolgy

Other Funds Dependency

1. Identify Risks

What other funds rely on the general fund for an important part of their funding?

A	Very limited
B	
C	

2. Assess Risks

How likely is it that these funds will need the general fund to "backstop" them in an emergency?

A	
B	
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of other funds' dependency? (i.e., manage it without reserves)

A	
B	
C	

4. Considering the above, how important for you is it to retain the risks of other fund dependency through reserves ?

1 < Enter your score here

5 **Very important.** A number of funds rely on the general fund for backstopping, with few, if any, risk management alternatives.

4 **Important.** We have at least some funds that rely on the general fund and this includes reliance for backstopping.

3 **Neutral.** We do not face an unusually high or low level of risk from other fund dependency.

2 **Unimportant.** There are a small number of funds that rely on the general fund, and the potential for the general fund to need to backstop them is small.

1 **Very unimportant.** No other funds rely on the general fund for backstopping.

This score is based on the fact that other funds depending on the General Fund are subordinate to the General Fund: they are not subsidies per se.

Appendix D: GFOA Structured Assessment Methodolgy

Growth

1. Identify Risks

What are potential major sources of growth in the next three to five years?

A | Very limited new development opportunities

2. Assess Risks

What is the potential for these sources of growth to cause imbalances in the revenue received from the growth and the expenditures needed to serve it?

A | Limited

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of growth? (i.e., manage it without reserves)

A | Limited, if significant growth does occur

4. Considering the above, how important for you is it to retain the risks of growth through reserves ?

2 < Enter your score here

5 **Very important.** We expect significant growth with imbalances in the timing of revenues and expenditures

4 **Important.** We have some growth that will cause imbalances in the timing of revenues and expenditures.

3 **Neutral.** We do not face an unusually high or low level of risk from growth

2 **Unimportant.** We have a small potential for future growth and/or only minor potential imbalances in the timing between revenues and expenditures.

1 **Very unimportant.** We expect no growth or growth will fully pay for itself as expenditures are incurred.

Population as of January 1: Last Ten Years

2018	30,601
2017	30,448
2016	31,376
2015	30,505
2014	30,443
2013	30,247
2012	29,808
2011	29,651
2010	30,802
2009	30,497
2008	30,170

Sources

For 2017 and 2018: State of California, Department of Finance, Demographic Research Unit
http://www.dof.ca.gov/Forecasting/Demographics/Estimates

For 2008 to 2016: Town of Los Gatos Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2017

Appendix D: GFOA Structured Assessment Methodolgy

<u>Capital Projects</u>

1. Identify Risks

What high priority capital projects don't have a funding source?

A	The City has a significantly underfunded CIP.
B	
C	

2. Assess Risks

What is the likelihood that reserves will be looked to as a funding source for the project?

A	Likely - but separate reserves have been set aside for this from General Fund revenues in the past.
B	
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of capital projects using reserves as a funding source? (i.e., manage it without reserves)

A	Not applicable
B	
C	

4. Considering the above, how important for you is it to retain the risks of unfunded capital projects through reserves ?

5	< Enter your score here
5	**Very important.** There are very high profile projects with out a funding source and reserves are likely to be considered as a funding source.
4	**Important.** There are at least some high profile projects where reserves may be called upon to provide at least some of the funding.
3	**Neutral.** We do not face an unusually high or low level of risk from unfunded high-priority projects
2	**Unimportant.** High priority capital projects will probably have funding sources, if they don't already.
1	**Very unimportant.** All high priority capital projects have funding sources.

Appendix D: GFOA Structured Assessment Methodolgy

Guiding Your Selection of a Fund Balance Target

Step 1. Determine your total score from the risk factors

29	Your total score from the risk factors (calculated if you entered a score in other sheets)

Step 2. Preliminary Analysis

Compare your score from Step 1 to the guidelines below.

Your Score	*Analytical Guidance*
8 - 16	You face minimal risk to retain through reserves. Consider a target equal to the GFOA minimum recommended reserve of 16.6% of revenues/expenditures.
17-24	You face a low to moderate level of risk to retain through reserves. Consider adopting a reserve target somewhat higher than the GFOA minimum (e.g. 17-25% of revenues/expenditures). Since risk is low, do not invest excessive analytical effort in determining an exact target amount. Consider a short, informal benchmarking study with peer agencies to provide guidance.
25-31	You face a moderate to high level of risk to retain through reserves. Consider adopting a target amount of reserves significantly higher than the GFOA recommended minimum (e.g., 26 - 35%). Consider a short, informal benchmarking survey as a starting point, but then analyze your most significant risk factors to make sure they are adequately covered by what the survey suggests is reasonable.
32 - 40	You face a high level of risk to retain through reserves. Consider adopting a much higher target than the GFOA minimum (e.g., greater than 35%). Consider performing a more in-depth analysis of the risks you face to arrive at target level of reserved that provides sufficient coverage.

Step 3. Consider Impact of Government Size, Budget Practices, & Borrowing Capacity

For each driver pick which description best fits you and enter the appropriate number of points.

2	**Government Size**
+2	We are under 50,000 in population
0	We are between 50,000 and 300,000 in population
-4	We are over 300,000 in population

-3	**Budget Practices**
-3	The budget has a formal contingency beyond what is being considered for this reserve.
-2	The budget has informal contingencies beyond what is being considered for the reserve.
0	The budget is lean and has no contingencies in it.

-2	**Borrowing Capacity**
-3	We have excellent external and internal borrowing capacity, including a good rating, little existing debt, and political will to use it.
-2	We have some external and/or internal borrowing capacity and political will could be mobilized to use it.

0	We have little or no borrowing capacity.

Step 4. Consider Impact of Commitments/Assignments, Outsider Perceptions & Political Support

Place an "X" next to each statement that applies to you.

Commitments and Assignments

x	We have commitments or assignments that designate fund balance for uses other than retaining the types of risk described in this analysis. If so, these commitments/assignments should not be included in the total reserve used to reach your target.

Outsider Perceptions

	Rating agencies have given us a target level of reserve for getting a good rating. If so, use that target in place of or in addition to a benchmarking survey to provide guidance on starting point for your target.
	The public is likely to question reserve levels as too high. If so, be sure to document your analysis findings in the other sheets.

Political Support

	The governing board places great weight on the policies of comparable jurisdictions. If so, conduct a benchmarking survey that includes governments the board perceives as relevant.
	The board places great weight on rating agency recommendations. If so, tie the reserve target recommendation to rating agency recommendations or standards.
	The board places great weight on GFOA recommendations. If so, use this analysis and GFOA's Best Practices to support your recommendation.

Step 5. Putting it All Together

A. Consider your adjusted risk score and re-consult the analytical guidance.

26	< Your adjusted risk score (risk score modified with results from Step 3)

B. Review results of Step 4.

Review each item you checked from Step 4 and add the advice to your analytical guidance.

C. Proceed with finalizing target

Proceed with setting a final reserve target based on analytical guidance.

Appendix E: Town of Los Gatos Cash Flow: 2018-19 General Fund Budget

	Total	% Total	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Total
REVENUES/SOURCES															
Property Tax	12,507,071	30%	100,057	100,057	100,057	750,424	1,375,778	2,376,343	2,376,343	100,057	1,500,849	1,500,849	100,057	2,126,202	12,507,071
VLF Backfill	3,482,060	8%	-	-	-	-	-	-	1,741,030	-	-	1,741,030	-	-	3,482,060
Sales & Use Tax	7,744,208	18%	645,351	645,351	645,351	645,351	645,351	645,351	645,351	645,351	645,351	645,351	645,351	645,351	7,744,208
Franchise Fees	2,386,910	6%	95,476	214,822	214,822	95,476	214,822	214,822	95,476	214,822	214,822	501,251	95,476	214,822	2,386,910
TOT	2,272,500	5%	227,250	227,250	159,075	159,075	159,075	159,075	227,250	136,350	136,350	227,250	227,250	227,250	2,272,500
Business License Tax	1,657,000	4%	33,140	33,140	33,140	33,140	33,140	33,140	828,500	497,100	33,140	33,140	33,140	33,140	1,657,000
Debt Service Reimb	1,909,073	5%	-	-	-	-	-	-	381,815	-	-	-	-	1,527,258	1,909,073
Total Top Sources	31,958,822	75%	1,101,274	1,220,619	1,152,444	1,683,466	2,428,165	3,428,731	6,295,765	1,593,679	2,530,511	4,648,870	1,101,274	4,774,023	31,958,822
Licenses and Permits	3,304,199	8%	275,350	275,350	275,350	275,350	275,350	275,350	275,350	275,350	275,350	275,350	275,350	275,350	3,304,199
Town Services	4,457,258	11%	371,438	371,438	371,438	371,438	371,438	371,438	371,438	371,438	371,438	371,438	371,438	371,438	4,457,258
Transfers In	544,836	1%	45,403	45,403	45,403	45,403	45,403	45,403	45,403	45,403	45,403	45,403	45,403	45,403	544,836
All Other Sources	2,098,542	5%	174,879	174,879	174,879	174,879	174,879	174,879	174,879	174,879	174,879	174,879	174,879	174,879	2,098,542
Total Revenues/Sources	42,363,657	100%	1,968,343	2,087,689	2,019,514	2,550,536	3,295,235	4,295,801	7,162,835	2,460,749	3,397,581	5,515,940	1,968,343	5,641,093	42,363,657
ANNUAL COSTS/USES															
PERS Unfunded Liability	3,088,308	6%	3,088,308												3,088,308
Capital Projects Transfer	2,365,220	5%												2,365,220	2,365,220
Cash Outs	480,000	1%						300,000						180,000	480,000
COP Debt Service	1,909,073	4%		1,527,258						381,815					1,909,073
All Other Costs	39,679,469	83%	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	3,306,622	39,679,469
Total Costs/Uses	47,522,070	100%	6,394,930	4,833,881	3,306,622	3,306,622	3,306,622	3,606,622	3,306,622	3,688,437	3,306,622	3,306,622	3,306,622	5,851,842	47,522,070
NET REVENUES	(5,158,413)	-	(4,426,587)	(2,746,192)	(1,287,109)	(756,087)	(11,387)	689,178	3,856,212	(1,227,688)	90,958	2,209,317	(1,338,279)	(210,750)	(5,158,413)
Cumulative Net	(5,158,413)		(4,426,587)	(7,172,779)	(8,459,888)	(9,215,975)	(9,227,362)	(8,538,184)	(4,681,971)	(5,909,660)	(5,818,701)	(3,609,384)	(4,947,663)	(5,158,413)	-
% OF ANNUAL COSTS			**-9%**	**-15%**	**-18%**	**-19%**	**-19%**	**-18%**	**-10%**	**-12%**	**-12%**	**-8%**	**-10%**	**-11%**	

Appendix F: Consultant Background

Bill Statler has extensive experience in organizational review, strategic planning and policy analysis, as well as in a broad range of financial management practices that have received state and national recognition for excellence in financial planning and reporting.

His work ranges from San Luis Obispo (the city that Oprah Winfrey calls the "Happiest City in America") to volunteer service helping the troubled City of Bell reform their government.

SENIOR FINANCIAL MANAGEMENT EXPERIENCE

Bill Statler has over 30 years of years of senior financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. ***San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition***.

- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. ***Again, San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories***.

- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.

- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health.

CONSULTING AND INTERIM ASSIGNMENTS

Long-Term Financial Plans

- City of Salinas
- City of Camarillo
- City of Carpinteria
- City of Pismo Beach
- City of Grover Beach

- City of Twentynine Palms
- City of Bell
- Bear Valley Community Services District

Strategic Planning and Council Goal-Setting
In collaboration with the HSM Team

- City of Monrovia
- City of Sanger
- City of Pismo Beach
- City of Bell (Pro Bono)
- City of Willits

Organizational Analysis and Policy Advice

- Financial Management Advice During Finance Director Transition: City of Monterey
- Organizational Review (Plans/Public Works and Community Services): City of Monterey
- Finance Organizational Review: Ventura Regional Sanitation District
- Benchmark Analysis: City of Capitola
- Financial Management Improvements: City of Capitola
- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)
- Financial Management Transition Team and Policy Advice: City of Bell (Pro Bono)
- Preparation for Possible Revenue Ballot Measure: City of Monterey
- Fund Accounting Review: State Bar of California
- Construction Project Contracting Review: Central Contra Costa Sanitary District
- Focused Financial Review: City of Watsonville
- Financial Assessment: City of Guadalupe
- Financial Condition Assessment: City of Grover Beach
- General Fund Reserve Policy: City of Pacific Grove
- General Fund Reserve Policy: City of Twentynine Palms
- General Fund Reserve Policy: City of Lompoc
- General Fund Reserve Policy: City of Willits
- Reserve Policy: State Bar of California
- Budget and Fiscal Policies: City of Santa Fe Springs

Interim Finance Director

- City of Monterey
- San Diego County Water Authority
- City of Capitola

Other Financial Management Services

- Revenue Options Study: Santa Clara Valley Water District
- Revenue Options Study: City of Greenfield
- Revenue Options Study: City of Pismo Beach
- Cost Allocation Plan: City of Greenfield
- Cost Allocation Plan: City of Guadalupe
- Cost Allocation Plan: City of Port Hueneme
- Cost Allocation Plan: City of Grover Beach
- Cost Allocation Plan Review: State Bar of California
- Cost Allocation Plan Review: City of Ukiah
- Disciplinary Proceedings Cost Recovery Review: State Bar of California
- Water and Sewer Rate Reviews: Avila Beach Community Services District
- Water and Sewer Rate Reviews: City of Grover Beach
- Solid Waste Rate Review: County of San Luis Obispo, Los Osos and North County Areas
- Joint Solid Waste Rate Review: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

PROFESSIONAL LEADERSHIP

- Member, Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- Member, GFOA Budget and Fiscal Policy Committee: 2005 to 2009
- President, League Fiscal Officers Department: 2002 and 2003
- President, CSMFO: 2001
- Member, Board of Directors, CSMFO: 1997 to 2001
- Chair, CSMFO Task Force on "GASB 34" Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter: 1994 to 1996

TRAINER

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada

- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- National Federation of Municipal Analysts
- Probation Business Manager’s Association
- Humboldt County
- California Association of Local Agency Formation Commissions
- American Planning Association

Topics included:

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Financial Analysis and Reporting
- Fiscal Health Contingency Planning
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times
- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- What Happened in the City of Bell and What We Can Learn from It
- Multi-Year Budgeting
- Top Challenges Facing Local Government Finance Officers
- Fiscalization of Land Use
- Debt Management
- Transparency in Financial Management: Meaningfully Community Involvement in the Budget Process
- Financial Management for Non-Financial Managers
- Preparing for Successful Revenue Ballot Measures
- Integrating Goal-Setting and the Budget Process
- Financial Management for Elected Officials
- 12-Step Program for Recovery from Fiscal Distress
- Strategies for Strengthening Organizational Effectiveness
- Budgeting for Success Among Uncertainty: Preparing for the Next Downturn

PUBLICATIONS

- *Guide to Local Government Finance in California*, Solano Press, Second Edition, 2017 (Co-Author)
- *Setting Reserve Policies – and Living Within Them*, CSMFO Magazine, May 2017
- *Presenting the Budget to Your Constituents*, CSMFO Magazine, July 2016
- *Planning for Fiscal Recovery*, Government Finance Review, February 2014

- *Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health*, Government Finance Review, August 2011

- *Fees in a Post-Proposition 218 World*, League of California Cites, District Attorney's Department Spring Conference, May 2010

- *Municipal Fiscal Health Contingency Planning*, Western City Magazine, November 2009

- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)

- *Financial Management for Elected Officials*, Institute for Local Government, 2010 (Contributor)

- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities*, Western City Magazine, November 2003

- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002 (Co-Author)

- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000

- *Understanding Sales Tax Issues*, Western Cities Magazine, June 1997

- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

HONORS AND AWARDS

- Cal-ICMA Ethical Hero Award (for service to the City of Bell)

- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession

- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Polices: User Fee Cost Recovery)

- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device

- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting

- GFOA Award of Achievement for Excellence in Financial Reporting

- CSMFO Certificate of Award for Outstanding Financial Reporting

- National Management Association Silver Knight Award for Excellence in Leadership and Management
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors, University of California, Santa Barbara

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Visit my web site for additional information at www.bstatler.com