

City of Oceanside

*Office of the City Manager***Memorandum**

To: Honorable Mayor and City Councilmembers
From: Peter A. Weiss, City Manager 
Date: July 16, 2013
Subject: **Healthy City Reserve Funding**

During the June 5, 2013, Council Meeting, the Council directed staff to raise the City's Healthy City Reserve from its current 12% to 13% of the total General Fund Budget beginning FY14-15. Staff will be scheduling an item for the August 7, 2013, Council meeting for the Council to take action to:

1. Amend Council Policy 200-08 and Council Policy 200-13 to increase the City's Healthy City Reserve to 13%;
2. Approve an option to attain the 13% Reserve;
3. Direct staff to include the Reserve Option in the development of the FY 14-15 Financial Forecast and the development of the FY 14-15 Budget Operating and Enterprise budgets.

The Healthy City Reserve is established and subject to Council Policy 200-08. The basis for the policy is to maintain a stable tax and revenue structure and provide for the orderly provision of services to the citizens of Oceanside in the event of fiscal adversity. The Healthy City Reserve fund would only be available as a temporary revenue source to be used to pay for day-to-day operating expenses while an orderly financial plan for cost reduction or revenue enhancement is developed.

The City's FY 13-14 General Fund budget is \$121 million and includes approximately \$14 million in transfers from other funds. Those transfers are used to support non-General Fund costs that are housed within General Fund business units and include the following funds:

Table 1: Non-General Fund Program Costs

Program	Funding Source	Amount
Capital Improvements Program	Developer Impact Fees	\$2.4 million
Finance Business Services	Water, Sewer and Solid Waste	\$1.75 million
Code Enforcement	Solid Waste	\$400,000
Harbor and Beaches Admin	Harbor	\$721,000
Harbor and Beaches Maintenance	Harbor	\$2.6 million
Harbor Police	Harbor	\$2.0 million
Non-departmental	General Fund Reserves	\$570,000
Public Works City Solid Waste Services	Solid Waste	\$1.2 million
Street Sweeping	Solid Waste	\$1.7 million
Public Works Flood Control	Water Utilities	\$725,000
Total		\$14 million

Although the Council's direction was to raise the Healthy City reserves from 12% to 13%, it is staff's opinion that the General Fund should not be responsible for funding the reserves and on-going operational expenses for Non-General Fund programs. Staff has identified three options for Council consideration related to raising the Health City Reserve:

1. Base the Healthy City Reserve on the Net General Fund: General Fund Budget of \$121 million less the \$14 million in transfers. In this option the Net General Fund Budget would be \$107 million with \$13.9 million needed to meet the 13% reserve requirement. With \$14.5 million available in the Healthy City Reserve Fund, the Council's target would be met.
2. Base the Healthy City Reserve on the full General Fund Budget and allocate additional General Fund revenues to the Reserve. In this option, the Healthy

City Reserve should be set at \$15.7 million. With \$14.5 million available, an additional \$1.2 million would be needed to augment the Healthy City Reserve Fund. The additional \$1.2 million could be allocated from existing unallocated reserve funds (Laguna Vista Sales Proceeds) or included in the FY 14-15 budget through additional city-wide cost savings and reductions. These reductions would need to be realized through additional reductions in programs and services.

3. Include a "Proration" of the Non-General Fund program costs to be allocated to the Healthy City Reserve. In this option, the various funds that support the non General Fund programs would be allocated their share of the Healthy City Reserve requirements. The following table represents the individual programs and their "Prorated" cost:

Table 2: Non General Fund Proration

Program	Cost	13% Allocation
Capital Improvements Program	\$2.4 million	\$312,000
(Note: this is for capital projects, not operating expenses)		
Finance Business Services	\$1.75 million	\$228,000
Code Enforcement	\$400,000	\$52,000
Harbor and Beaches Admin	\$721,000	\$94,000
Harbor and Beaches Maintenance	\$2.6 million	\$338,000
Harbor Police	\$2.0 million	\$260,000
Non-departmental	\$570,000	0*
Public Works City Solid Waste Services	\$1.2 million	\$156,000
Street Sweeping	\$1.7 million	\$221,000
Public Works Flood Control	\$725,000	\$94,000
Total	\$18 million	\$1,755,000
Existing Healthy City Reserve		\$14,500,000
Total		\$16,255,000

This would equate to a Healthy City Reserve of approximately 13.5% of the Total General Fund Budget.

*Primarily one-time allocations and not on-going costs

Under the Proration Option, the additional costs would impact several Enterprise Funds. Based on Table 2, the following Table (3) identifies the funding source and total cost impact to the funds.

Table 3: Impact to Enterprise Funds

Fund	Total Cost
Capital Improvement Program/Development Impact Fees (Would result in transferring capital funds to operating expenses)	\$312,000
Water Fund	\$152,000
Sewer Fund	\$59,000
Solid Waste Fund	\$487,000
Harbor Fund	\$692,000

Under the Proration Option, the Council would need to authorize the transfer of funds from the identified Enterprise Funds to the Healthy City Reserve. The CIP, Water and Sewer funds do have sufficient capacity to transfer the funds without significant impacts to potential operating or capital needs.

The Solid Waste Fund also has adequate capacity to transfer the funds, but the result will be to reduce the Rate Stabilization Fund balance and would result in additional Waste rate increases in the future.

The Harbor Fund also has the capacity to transfer the funds. The Harbor Fund includes \$950,000 that is Restricted for Emergency Repairs and is not meant for operating expenses. A portion of these funds could be transferred to the Healthy City Reserve, but the Harbor Fund would need to be restored with additional slip rate increases.

Depending on the Council's direction at its August 7, 2013, meeting, staff will amend Council Policy 200-08 and Council Policy 200-13 and implement the appropriate budget adjustments as directed.