



Agenda Report

DATE: JULY 18, 2017
TO: CITY COUNCIL
FROM: ADMINISTRATIVE SERVICES DEPARTMENT – FINANCE DIVISION
SUBJECT: ALLOCATION OF UNASSIGNED GENERAL FUNDS (ONE-TIME FUNDS)

STATEMENT OF ISSUE:

The City has approximately \$12.8 million in unassigned General Fund dollars remaining from the close of FY 2016. The Council is being asked to consider an allocation of the funds to an irrevocable pension trust to address large anticipated increases in pension costs in future years.

RECOMMENDED ACTION:

Staff and the Finance Committee recommend an allocation of \$12.8 million in unassigned General Fund dollars to an irrevocable pension trust to be set up by the City. *In its recommendation, the Finance Committee also recommends that Staff develop and the Council adopt an investment policy. Further, the Committee recommends that the investment policy include language limiting withdrawals from the trust to only pay for the Unfunded Accrued Liability (UAL).*

If the Council approves an allocation of unassigned General Funds to an irrevocable pension trust, it is also recommended the Council amend the “Uses of One-Time Revenues and General Fund Surpluses” policy to make it clear that an allocation to the trust is an acceptable use of the funds. See proposed resolution implementing changes to the policy in **Attachment 1**.

DISCUSSION:

The Council met in February 21, 2017 to consider an allocation of one-time funds following the closure of FY 2016. At that time, the Council was considering an allocation of \$16.8 million in unassigned General Fund resources. The Council took the following actions at that meeting:

- Allocation of \$2 million to complete the Corporation Yard relocation
- Allocation of up to \$1 million to an upgrade in the Leshner Center for the Arts - Plaza Renovation and Enhancement project
- Allocation of up to \$727,500 to Walnut Creek Downtown for a mini park project
- Allocation of \$300,000 to building security projects – this occurred at the October 4, 2016 meeting, but was not reflected in the FY 2016 results.

Following these actions, the remaining unassigned fund balance is approximately \$12.8 million – see **Attachment 2** for detail on the unassigned general fund balance.

Staff and Finance Committee Recommendation for One-Time General Fund Allocation

In April 18, 2017, Staff provided the City Council with an overview of the challenges presented by anticipated large increases in pension contributions. At that meeting, the Council authorized the creation of an irrevocable pension trust as a tool to be used in mitigating the anticipated large cost increases.

Staff then presented the Long Term Financial Forecast to the Finance Committee at its June 6, 2017 meeting and to the full Council tonight that highlights operating budget challenges within the next 4 to 5 years as a result of the increasing pension costs.

The challenges posed by the anticipated large increases in pension costs are likely to turn current operating surpluses into deficits.

As a result, Staff is recommending the allocation of the entire \$12.8 million unassigned General Fund balance into the irrevocable pension trust. See trust model options in **Attachment 3**.

While this level of transfer to the trust will not bridge the entire anticipated budget gap in future years, an early investment of this size gives the City the best chance at addressing projected deficits. **Attachment 4** provides examples of how the trust models can be used to mitigate projected deficits.

Additionally, the pension trust provides a high degree of flexibility to the Council as it can be used for any portion of the current year's pension costs (normal and unamortized liability portions) and to cover the prior year's pension costs. As a result, there is minimal risk that funds placed into the trust cannot be used by the City if they are needed.

Staff anticipates the City budget will generate surpluses from the FY 2017 results and the Council will be in a position to make an additional allocation to the trust and/or for other purposes in early 2018 after the audit is complete. Additionally, staff will make future recommendations to transfer funds from the PERS reserve fund into the trust as they are repaid during the next three years. The allocation of these repayments is demonstrated in the trust models attached.

FINANCIAL IMPACTS:

Allocation of the current unassigned General Fund will eliminate the potential use of those funds for other purposes and will set these funds aside to address pension costs.

ALTERNATIVE ACTION:

Prior to the news of the large increase in future pension costs, the Finance Committee met in December 2016 and made recommendations to the City Council for consideration of allocating the General Fund surpluses. The staff report, which includes those earlier recommendations, is included as **Attachment 5**. The Council could consider allocating resources to needs identified in that staff report or for other purposes.

The Council could elect to take no action or to allocate only a portion of the available unassigned General Fund balance.

DOCUMENTS:

- Attachment 1: Resolution Amending Use of One-Time Revenues and GF Surpluses policy
- Attachment 2: Unassigned General Fund Balance Computation
- Attachment 3: Irrevocable Trust Models
- Attachment 4: Demonstration of Trust use to Mitigate Projected Deficits
- Attachment 5: One Time Funds Staff Report - February 21, 2017

CITY COUNCIL ACTION RECOMMENDED:

Move to:

- (1) Approve an allocation of unassigned General Funds in the amount of \$12.8 million to an irrevocable trust to be established by the Council at a future date, and that the creation of the trust will include an investment policy that includes a provision that withdrawals from the trust can only be used to pay the Unfunded Accrued Liability (UAL); and
- (2) Move to approve the resolution amending Administrative Policy No. 302, “Use of One-Time Revenues and General Fund Surpluses” policy.

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