



ACTION MINUTES

CITY OF DANA POINT

INVESTMENT REVIEW COMMITTEE

TUESDAY, APRIL 22, 2014

10:00 PM

LOCATION: City Hall, Second Floor, Suite 212, Public Works Conference Room,
33282 Golden Lantern, Dana Point, CA 92629

CALL TO ORDER:

The meeting of the Investment Review Committee of the City of Dana Point was called to order by Chair Lisa Bartlett at 10:15 a.m.

ROLL CALL OF COMMITTEE MEMBERS:

Lisa Bartlett, Chair
Scott Schoeffel, Committee Member
Doug Chotkevys, Committee Member
Mike Killebrew, Committee Member
Larry Rolapp, Public Member
Nancy Baumann, Public Member

Staff Present

Beverly Brion, Sr. Management Analyst
Brad Fowler, Director of Public Works
Kate Kholyvanko, Management Analyst
DyAnne Weamire, Administrative Secretary

APPROVAL OF MINUTES:

ITEM 1: Minutes of the Investment Review Committee of January 13, 2014.

ACTION:

It was moved by Chair Lisa Bartlett, Seconded by Committee Member Doug Chotkevys, to approve minutes from the January 13, 2014 meeting.

The motion carried by the following vote:

AYES: Chair Lisa Bartlett, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Committee Member Larry Rolapp, Committee Member Nancy Baumann.

NOES: None

ABSTENTION: Committee Member, Scott Schoeffel

NEW BUSINESS:

Item 2: Investment Review Committee Reorganization

ACTION:

It was moved by Committee Member Chotkevys, Seconded by Chair Bartlett that the new Vice Chair be Scott Schoeffel.

The motion carried by the following vote:

AYES: Chair Lisa Bartlett, Committee Member Scott Schoeffel, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Committee Member Larry Rolapp, Committee Member Nancy Baumann.

NOES: None

ITEM 3: Review of General Fund Reserve Policy

Committee Member Mike Killebrew gave a general overview of the General Fund Reserve Policy and asked for input from the Committee on any recommended changes to the current policy.

Member Chotkevys suggested that the IRC meet again in May, with the April financial reports so that the latest information is available to the Committee prior to making any recommendations for changes to the General Fund Reserve Policy.

Committee Member Killebrew continued that in 2005 the IRC was given additional responsibilities to review the City's financial management policies. In 2006 there were several meetings that took place regarding financial and fund balance policies and Committee Member Killebrew provided a copy of the August 23, 2006 agenda report with recommendations by the

IRC to the City Council to adopt the General Fund Reserve Policy and the Capital Infrastructure Funding Policy.

Vice-Chair Schoeffel asked if this is as far back as the policies go.

Committee Member Rolapp explained that in the early 2000's there was new legislation that required City's to have investment policies and that is what prompted the formation of these policies.

Vice-Chair Schoeffel asked prior to the legislation were the financial policies created on a case-by-case basis based on the financial manager at that time.

Committee Member Rolapp explained that there were some state requirements and Government Finance Officer's Association guidelines, but had not been consolidated into formal legislation. Committee Member's Chotkevys and Rolapp stated that the legislation had stemmed from the 1994 bankruptcy creating the legislation in the late 1990's.

Vice-Chair Schoeffel asked Public Member Rolapp that he be provided a citation to that legislation so he can review it.

Committee Member Killebrew continued that in 2011 there was an accounting standard passed that changed how fund balances were reported. The Governmental Accounting Standards Board adopted statement number 54 ("GASB 54") which was introduced in 2011 and provided for a more detailed presentation of fund balances. The method used by the City of Dana Point within its Comprehensive Annual Financial Report (CAFR) is consistent with accounting standards. The current required reporting format is different than what we have in our adopted financial policy. Member Killebrew continued that we are in compliance with our current fund balance reserve policy, and that through the Great Recession when our largest revenue source diminished by 40 percent, the City's reserves were never utilized. One of the purposes of the emergency reserves is to support the City in a financial crisis; however, the City never touched these reserves.

Reviewing our current reserves, the policy calls for a Cash Flow Reserve which ensures payment of City expenses as our revenues do not come in equally each month. The Cash Flow Reserve is currently set at 10 percent of General Fund operating revenue, currently \$2.9 million.

Committee Member Rolapp commented that the City has a two-year budgeting cycle and asked if after the City completes the first year and enters into the second, does the City adjust the reserves accordingly. Committee Members Chotkevys and Killebrew confirmed this action.

Committee Member Killebrew continued that the Emergency Reserve is set at 20 percent of the General Fund operating revenue, currently at \$5.9 million. This reserve sets aside funds for emergencies such as earthquakes, landslides, major economic calamities such as the Great Recession; and this fund has never been utilized by the City. The City Council also established a State Budget Impacts Reserve in 2007-2008, when the State informed municipalities that they would be taking local government revenues to balance the State budget. In response to this, the City set aside \$1 million over two consecutive years for a total of \$2 million for this reserve; however, approximately 4 years ago the City decided to lower that amount to \$1.475 million because legislation was enacted that prevented the State from taking some of the revenue. The State did take \$800K in 2010, but repaid it last year as required under current legislation. In

addition, there was also a State Constitutional Amendment passed that prevents the State from taking all the monies the City estimated could be taken by the State. Therefore, based on constitutional projections now in place, Member Killebrew does not foresee any revenues that can be taken or borrowed by the State. The City currently has a \$1.475 million reserve set aside.

In addition, the City has a Capital Projects Sinking Fund Reserve which was as high as \$3.1 million; however the City recently utilized \$600K of that reserve to fund the first Phase of the Town Center project, leaving the reserve currently at \$2.5 million. The one restricted reserve the City has is the Art in Public Places, and under the Municipal Code certain developments have to pay into this fund. In addition the City has an Unassigned Fund Balance currently at \$4.9 million.

Vice Chair Schoeffel asked what the purpose of the Unassigned Fund Balance is for; Member Killebrew responded that it is an “unspoken for fund balance.”

Member Rolapp questioned the Sinking Fund Reserve and if the City replenishes the fund. Member Killebrew responded that he would like to have a policy discussion with the IRC about this particular account at a later time and would like the IRC to give him direction with regards to this account.

Chair Bartlett asked Member Killebrew if the General Fund Reserve accounts in total equate to over 50 percent of the City’s annual budget. Member Killebrew confirmed that to be the case.

Member Killebrew continued the discussion of fund balances and how they relate to credit reporting agencies. It has been reported that ten percent of a credit reporting agency’s analysis and decision is based on Fund Balance. Member Rolapp elaborated on this issue and explained that a municipality dependent on tourism and transient occupancy tax such as the City of Dana Point looking to have a high credit rating will want to have higher reserves. In addition, the City has an advantage in that it has high surpluses and two-year budgeting which presents well to credit agencies.

Member Killebrew continued that there is new terminology that the City is required to use in reporting its fund balance and explained the new terminology is required by GASB 54 and includes Restricted Fund Balance, which are funds set aside by legislation that restricts how the money can be spent. Art in Public Places is the City’s one restricted fund balance category.

Another category is Committed Fund Balance, which a special revenue fund designation and the City has no such funds at this time. Another category is Assigned Fund Balance where the local governing body has control over how the funds can be spent; in the case of Dana Point, our Capital Improvement Program reserve qualifies as an assigned fund balance; but a Council action can change this designation. The Unassigned Fund Balance does not have an identified purpose.

The Government Finance Officers Association (GFOA) recommends Best Practices, and they interpret governmental accounting standards and provide guidance on formatting financial statements. They also interpret what the accounting standards are and assist governments to present items consistently. The GFOA’s Best Practice for setting up reserves is to have a minimum of two months of revenues or expenditures, or 16.7 percent. In addition, there is a Civic Federation that has been in existence for 140 years out of the mid-west that looks at reserves more holistically, along with government transparency and this agency looks not at

minimum reserves but rather maximum reserves and what is excessive. The number this agency believes is too high is 50 percent of revenues.

Member Killebrew believes that the right percentage of fund reserves for the City should be somewhere between 16.7 and 50 percent of operating expenditures. He further states that the City's revenues and expenditures have been predictable and consistent, aside from the Great Recession anomaly. The past 10 to 12 years of revenues and expenditures for the City have been extremely consistent. If the City excluded the Undesignated Reserve, currently at \$4.9 million, from the General Fund Reserves the City would still have over 34% of net unassigned reserves, which is conservative.

Member Killebrew continued that other factors need to be taken into account such as the City's predictability of revenues and volatility of expenditures, exposure to disasters, capital needs and state budget money grabs, deficits in other City funds (which Dana Point does not have) and liquidity issues; Member Killebrew mentioned that although the City's TOT was down 40 percent by 2010 from pre-recession highs, the City never utilized the Emergency Reserve or the Cash Flow Reserve. With regards to disasters or claims, the City is insured through the CJPIA.

He explained that he is not advocating not having an emergency reserve. Chair Bartlett stated that there are currently negotiations between the Board of Supervisor's and Sheriff's Department with regards to pension issues that could affect contract cities paying an additional 30 to 40 percent, and that it would be quite a substantial increase to the City which currently pays just over \$10 million for public safety. Member Killebrew said that he does not foresee that high of an increase. He said that after conversations with Sheriff's Department finance staff last week, the 30 to 40 percent number was never discussed but that there is an expected 5.4 percent increase in costs, and that cost was predicted by the City a year earlier when constructing the two-year budget. Member Chotkevys explained that the City budgets a 5 to 6 percent increase each year and the City generally always receives money back. Member Killebrew said he would get an update on this issue but is not sure where the number of 30 to 40 percent increase is coming from. Chair Bartlett explained that the increase is due to Pension Pickup and that Pat Bates had provided this information to her about a month ago. Member Chotkevys said that staff will look into those numbers and have information regarding this issue by next meeting.

Member Killebrew continued summarizing his General Fund Revenue report stating that when the City put this year's budget together, including the Town Center project Phase I, the City drew down the budgeted Unreserved Fund Balance to the amount of \$280K. However, there is no wording in our current policy that states what a minimum balance should be on the Unreserved Fund Balance and there is no language that states how to rebuild the reserve balance, and suggested that we should add this component to the City's current policy. He suggested that the IRC look at adding language in the policy that gives the Council guidance in how to rebuild and fund the reserve. Vice Chair Schoeffel asked how long it took for the City to build up the current reserves to date. Member Chotkevys responded that the majority of the monies in the reserve began accumulating in December of 2002 and Member Killebrew stated that it took approximately three to four years for the reserves to reach its current balance.

Member Baumann asked since the current policy is working so well, why should the policy need to change. Member Killebrew answered that he does want to update it for terminology updates at a minimum and that there is no need to have a State Budget Impact Fund any longer since Proposition 22 has been enacted, and recommends the IRC have a discussion about having a minimum reserve set for the Unreserved Fund Balance. Member Chotkevys suggested to have

this discussion at another meeting set for a date in May after all the numbers are provided for the coming year and then take a look at the next 12 months.

Member Rolapp asked with regards to the State Impacts Reserve Fund if it would be prudent to keep the State Budget Impact Fund, but have a zero balance. Member Killebrew explained that the State Budget Impact Fund is not currently in the policy and that it was a Council Action when they adopted the budget.

Vice Chair Schoeffel would like to know what the reserve policies are for other comparable cities not just in south Orange County but throughout a comparable system throughout the state. In addition, Member Schoeffel stated that he would also be interested to know how well the City of Dana Point performed during the Great Recession relative to other comparable cities in the State of California that were subject to the same economic environment from 2007 through to whatever the appropriate measuring period is taking into consideration cities with redevelopment and non-redevelopment factors.

Member Rolapp asked if the intention today is to clarify the Reserve Policy and determine how monies flow in and out, and/or to come up with new reserve levels. Member Killebrew recommends to the committee that it take a look at adjusting the current reserve levels. Member Rolapp clarified and Members Killebrew and Chotkevys confirmed that another meeting of the IRC should be set after the April financials are available so that the IRC can review estimated reserves and cash flows prior to making a decision. Member Chotkevys recommends having another meeting of the IRC approximately the third week of May 2014.

PUBLIC COMMENTS:

There were no Public Comments

COMMITTEE MEMBER COMMENTS:

There were no Committee Member Comments

ADJOURNMENT:

Chair Lisa Bartlett declared the meeting adjourned at 11:10 a.m.