

# Folsom City Council Staff Report

<b>MEETING DATE:</b>	1/24/2023
<b>AGENDA SECTION:</b>	Consent Calendar
<b>SUBJECT:</b>	Resolution No. 10980 - A Resolution Directing the Finance Director to Make a Transfer from the General Fund and Enterprise Funds to the Risk Management and Compensated Leaves Internal Service Funds to Replenish Reserve Balances Used During the COVID-19 Related Economic Downturn
<b>FROM:</b>	Finance Department

## **RECOMMENDATION / CITY COUNCIL ACTION**

The Finance Director respectfully recommends that the City Council pass and adopt Resolution No. 10980 – A Resolution Directing the Finance Director to Make a Transfer from the General Fund and Enterprise Funds to the Risk Management and Compensated Leaves Internal Service Funds to Replenish Reserve Balances Used During the COVID-19 Related Economic Downturn.

## **BACKGROUND / ISSUE**

The Risk Management Internal Service Fund (Fund 606) and the Compensated Leaves Internal Service Fund (Fund 015) maintain reserves to smooth the effect of fluctuating insurance and benefit costs year to year. The Risk Management Internal Service Fund also maintains reserves as part of the City’s self-insurance program.

At the December 13, 2022, City Council meeting, the Finance Director gave a FY 2022-23 First Quarter Financial Update. As part of the update, the FY 2021-22 year-end results for the General Fund were reported. The General Fund ended the fiscal year with a surplus, resulting in an Unassigned Fund Balance of \$23,260,485, or 23.69% as a percentage of expenditures. This surplus was, in part, due to the use of the internal service fund reserves to reduce costs in the General Fund for the past two fiscal years. The General Fund unassigned fund balance has

recovered from the COVID-19 related economic downturn and now exceeds the City Council's policy requiring a minimum of 15% as a percentage of expenditures be held in reserve.

Staff recommends that the City Council consider a transfer from the General Fund and the Water, Wastewater and Solid Waste Enterprise Funds to the Risk Management and Compensated Leaves internal service funds to replenish reserve balances used during the COVID-19 related economic downturn and ensure that the internal service funds have sufficient reserves moving forward.

### **POLICY / RULE**

Section 3.02.030 of the Folsom Municipal Code states, in part, that only the city council, by resolution, may transfer appropriations between funds and from unappropriated balances, contingency appropriations or accounts, or fund balances to any fund or appropriation account, or increase the total budget of any fund.

### **ANALYSIS**

#### **Risk Management Internal Service Fund**

The Risk Management Internal Service Fund exists to finance the cost of risk programs, including workers' compensation, health benefits for active employees and retirees, life, vision, dental, and other purchased insurance coverage, and various liability coverages. Every year, the total insurance costs for medical, dental, vision, liability, and workers' compensation insurance are projected, and a proportionate amount is transferred per employee from the General Fund or Enterprise Funds, depending on the employee, to the Risk Management Internal Service Fund to cover these annual expenses.

The Risk Management Internal Service Fund was implemented in 2010 and the City was able to commit to building a reserve in this fund to smooth the effect on the General Fund and the Enterprise Funds of fluctuating insurance costs year to year and to protect the General Fund from potential claims or litigation costs that may exceed our self-insurance coverage through the Northern California Cities Self Insurance Fund (NCCSIF) in which the City participates. If the costs for claims or litigation were to exceed our self-insurance coverage, the General Fund would be forced to cover the excess if reserves in the Risk Management Internal Service Fund were insufficient. At the inception of the fund, the goal of building the reserve to about six months of expenditures was deemed appropriate. At the fund's high-water mark in FY 2019-20, \$9 million was held in reserve, equating to six months of the fund's annual expenses.

As the City faced significant revenue losses during the COVID-19 economic downturn, it was recommended during the budget process that the City Council reduce the transfer amount from the General Fund and Enterprise Funds to the Risk Management Internal Service Fund for both FY 2020-21 and FY 2021-22 as a temporary cost savings measure. That resulted in expenses in the Risk Management Fund exceeding the revenues transferred in and the use of reserves was planned for both fiscal years. This use of reserves totaled \$3,288,471 over the two years,

and the fund ended FY 2021-22 with reserves of \$5.3 million, or only 3 months of annual expenses.

**Compensated Leaves Internal Service Fund**

The Compensated Leaves Internal Service Fund operates similarly. The fund is used to account for payment of accrued vacation leave upon separation of employment. Again, it was recommended during the budget process that the City Council reduce the transfer amount per employee from the General Fund and the Enterprise Funds to the Compensated Leaves Internal Service Fund for both FY 2020-21 and FY 2021-22 as a temporary cost savings measure. That resulted in expenses in the Compensated Leaves Internal Service Fund exceeding the revenues transferred in and the use of reserves was planned for both fiscal years.

This use of reserves totaled \$1,139,286 over the two years, and the fund ended FY 2021-22 with a negative reserve balance of (\$211,550).

**FINANCIAL IMPACT**

The total transfer to the Risk Management Internal Service Fund will be \$3,288,471, with \$2,893,855 from the General Fund and \$394,616 from the Enterprise Funds as noted in the chart below. The total transfer to the Compensated Leaves Internal Service Fund will be \$1,139,286 with \$1,002,571 from the General Fund and \$136,715 from the Enterprise Funds.

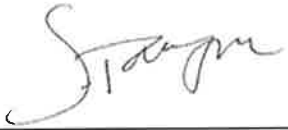
<u>Transfer out</u>	<u>Transfer In</u>		<u>% of Total Transfer</u>
	<u>Risk Mgmt</u>	<u>Comp Leaves</u>	
General Fund	\$ 2,893,855	\$ 1,002,571	88%
Water	180,866	62,661	6%
Wastewater	65,769	22,786	2%
Solid Waste	147,981	51,268	5%
	<u>\$ 3,288,471</u>	<u>\$ 1,139,286</u>	

These transfers will bring both internal service fund reserves back to their pre-COVID-19 levels and leave the General Fund with a projected unassigned fund balance of \$19.2 million or 19% as a percentage of expenditures. This transfer has minimal impact on the Enterprise Fund’s reserves.

**ATTACHMENT**

1. Resolution No. 10980 - A Resolution Directing the Finance Director to Make a Transfer from the General Fund and Enterprise Funds to the Risk Management and Compensated Leaves Internal Service Funds to Replenish Reserve Balances Used During the COVID-19 Related Economic Downturn

Submitted,

A handwritten signature in cursive script, appearing to read "Stagni".

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Stacey Tamagni, Finance Director/CFO  
Office of Management and Budget

**RESOLUTION NO. 10980**

**A RESOLUTION DIRECTING THE FINANCE DIRECTOR TO MAKE A TRANSFER FROM THE GENERAL FUND AND ENTERPRISE FUNDS TO THE RISK MANAGEMENT AND COMPENSATED LEAVES INTERNAL SERVICE FUNDS TO REPLENISH RESERVE BALANCES USED DURING THE COVID-19 RELATED ECONOMIC DOWNTURN**

**WHEREAS**, the Risk Management Internal Service Fund and the Compensated Leaves Internal Service Fund maintain reserves to smooth the effect of fluctuating insurance and benefit costs year to year.; and

**WHEREAS**, the Risk Management Internal Service Fund also maintains reserves as part of the City's self-insurance program; and

**WHEREAS**, as the City faced significant revenue losses during the COVID-19 economic downturn, it was recommended that the City Council reduce the transfer amounts from the General Fund and the Enterprise Funds to the Risk Management and Compensated Leaves Internal Service Funds for both FY 2020-21 and FY 2021-22 as a temporary cost savings measure; and

**WHEREAS** this action resulted in the planned use of reserves in the internal service funds of \$4,427,757; and

**WHEREAS** the General Fund unassigned fund balance has recovered from the COVID-19 related economic downturn and now exceeds the City Council's 15% reserve policy; and

**WHEREAS**, staff recommends replenishing the reserve balances in the internal service funds to ensure sufficient reserves moving forward; and

**WHEREAS**, sufficient funds are available in the General Fund unassigned fund balance and the Water, Wastewater and Solid Waste Enterprise Funds:

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Folsom directs the Finance Director to replenish reserve balances used during the COVID-19 related economic downturn and make a transfer totaling \$3,896,426 from the General Fund (Fund 010) unassigned fund balance, \$243,527 from the Water Enterprise Fund (Fund 520), \$88,555 from the Wastewater Enterprise Fund (Fund 530) and \$199,249 from the Solid Waste Enterprise Fund (Fund 540) to the Risk Management Internal Service Fund (Fund 606) in the amount of \$3,288,471 and to the Compensated Leaves Internal Service Fund (Fund 015) in the amount of \$1,139,286.

**PASSED AND ADOPTED** this 24 day of January, 2023, by the following roll-call vote:

**AYES:** Councilmember(s):  
**NOES:** Councilmember(s):

**ABSENT:** Councilmember(s):  
**ABSTAIN:** Councilmember(s):

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Rosario Rodriguez, MAYOR

**ATTEST:**

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Christa Freemantle, CITY CLERK