



MINUTES

Finance Administration and Police Subcommittee Meeting

Meeting Date: Thursday, August 25, 2016

Meeting Time: 2:00 p.m.

Meeting Location: City Hall

124 N. Cloverdale Blvd., Cloverdale, CA

Subcommittee Members

Councilmember Mary Ann Brigham, Chair

Councilmember Gus Wolter

City Manager, Paul Cayler

Police Chief, Stephen Cramer

Finance Manager, Joanne Cavallari

1. **Call to Order:** Chair, Mayor Brigham, called the meeting to order at 2:00 p.m.
2. **Communications:** None
3. **Public Comment:** None
4. **Approval of Minutes:** The minutes for April 28, 2016, June 23, 2016 were approved.
5. **Current Items for Discussion:**
 - a) Reserve policy
Finance Manager Cavallari distributed a Best Practices information sheet from the Government Finance Officers Association (attached). The Subcommittee discussed the current reserve policy. Restricted and unrestricted fund balances were discussed. The committee recommended revisions be made to the reserve policy, including changing the contingency reserve from 25% down to 18% and moving unforeseen catastrophic cost into a separate category.
 - b) Discussion of disposal of old police cars
Chief Cramer discussed the need to remove the old, inoperable police cars that are currently taking space at the corp yard. He distributed a handout, detailing his request (attached). The committee made the recommendation to bring this item to the City Council.
6. **Information Only Memos:** None
7. **Future Agenda Items (subject to change):** Discussion on the new police station and new patrol vehicles
8. **Pending Items:** None
9. **Good of the Order:** None
10. **Adjournment:** Chair, Mayor Brigham, adjourned the meeting at 3:13 p.m. to a special meeting on Thursday, October 13, 2016, at 2:00 p.m., or alternate date as requested. Meetings scheduled for September 22, 2016 and October 27, 2016 were canceled.



BEST PRACTICE

Appropriate Level of Unrestricted Fund Balance in the General Fund

BACKGROUND:

In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.¹ While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.² The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.
2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

RECOMMENDATION:

GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.³ Such a

guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.⁴ In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.⁵ The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.⁶ Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Use and Replenishment.

The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

Unrestricted Fund Balance Above Formal Policy Requirement. In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Notes:

1. For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
2. These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
3. Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
4. See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
5. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.
6. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.



Cloverdale Police Department

Stephen Wayne Cramer, Chief of Police

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August 25, 2016

REQUEST TO DISPOSE OF OUT-OF-SERVICE SURPLUS VEHICLE CITY OF CLOVERDALE FINANCE, ADMINISTRATION & POLICE SUB- COMMITTEE

MR. PAUL CAYLER – City Manager
MR. DAVID KELLEY – Assistant City Manager
MS. JOANNE CAVALLARI – Finance Director
MS. MARY ANN BRIGHAM – Mayor
MR. GUS WOLTER – Vice Mayor

Re: Disposal of Out-of-Service Police Vehicles

To the Honorable Committee Members:

On behalf of the City of Cloverdale and the Cloverdale Police Department, I respectfully request the City of Cloverdale Finance & Administration Sub-committee review and approve the following recommendation:

RECOMMENDATION:

The Cloverdale Police Department recommends that the Cloverdale City Council authorize the City of Cloverdale, and specifically the Cloverdale Police Department, to dispose of eight (8) surplus patrol vehicles that are no longer in service due to excessive mileage and maintenance costs. Due to the insignificant value of the city-owned assets, I recommend that a local auto-salvage business be allowed to remove the patrol vehicles from the City's Corporation yard at the business' cost.

INTRODUCTION:

The following eight (8) patrol vehicles are no longer in service, due to excessive mileage and maintenance costs:

- | | |
|-----------------------------|---------------------|
| 1. 1994 Chevrolet Caprice | (1G1BL52P2RR201231) |
| 2. 1995 Chevrolet Caprice | (1G1BL52P8SR168810) |
| 3. 1995 Chevrolet Caprice | (1G1BL52P7SR169124) |
| 4. 1995 Chevrolet Caprice | (1G1BL52P7SR169205) |
| 5. 1999 Ford Crown Victoria | (2FAPF71W0XX105611) |
| 6. 2002 Ford Crown Victoria | (2FAPF71W52X149743) |
| 7. 2002 Ford Crown Victoria | (2FAPF71W32X149742) |
| 8. 2002 Ford Crown Victoria | (2FAPF71W32X129832) |

CLOVERDALE POLICE DEPARTMENT

ANALYSIS:

The Cloverdale Police Department is requesting authority to dispose of eight (8) out-of-service, surplus patrol vehicles. The Cloverdale Municipal Code provides the authority for the City Manager, as purchasing agent, and/or his staff, to dispose of surplus city-owned assets. Specifically, Cloverdale Municipal Code section 3.08.130 allows for the disposal of surplus city-owned assets and states:

At such times as determined by the purchasing agent, reports shall be prepared showing all supplies and equipment which are no longer used or which have become obsolete or worn out. The purchasing agent shall have the authority to sell, trade or exchange all said supplies and equipment.

In general, this process involves a competitive bidding process for equipment valued between one thousand dollars (\$1,000.00) and twenty-five thousand dollars (\$25,000.00). However, Cloverdale Municipal Code section 3.08.050(D) allows for the disposal of surplus city-owned assets without a competitive bidding process when the property is valued at less than one thousand dollars (\$1,000.00).

The above-referenced vehicles have broken down beyond reasonable repair and no longer function as adequate patrol vehicles for your police department. Over the years, the prior administration chose to “cherry-pick” parts from these vehicles as replacement parts for our other line vehicles. To date, there are no more valuable or useable parts to salvage from these vehicles. We have removed all essential components of the vehicles, including but not limited to light bars, mobile data computer mounts, steering wheels, window and engine parts. As such, the cumulative value of the above-listed patrol vehicles is less than one thousand dollars (\$1,000.00).

Refraining from the competitive bidding process for the above-listed vehicles will avoid the cost for noticing a bid opening and savings in staff cost and time involved with the bid process. Therefore, staff is requesting that the Honorable Sub-Committee members concur in the City Manager’s and Police Chief’s position concerning the surplus equipment and permit the Chief of Police to dispose of the equipment without competitive bidding as provided in Cloverdale Municipal Code section 3.08.050(D).

Further, and of equal importance, the “patrol vehicle graveyard” is taking up valuable space at the City’s Corporation yard that can be better utilized by the Public Works Director and his staff.

We have contacted a local auto salvage business and the owner has agreed to remove the patrol vehicles at his own expense.

Staff has consulted with Jose Sanchez, City Attorney, and we agree that the proper course of action is to make this formal request through the Sub-Committee and a formal City Council Resolution.

FINANCIAL INFORMATION:

The police department requests permission to dispose of the above-referenced out-of-service patrol vehicles through a local auto salvage business, and not through the competitive bidding process. It is my professional opinion that we will not receive any financial compensation should we offer the vehicles in a bidding process, specifically because the value of the vehicles is minimal.

Respectfully Submitted,



Stephen Wayne Cramer
Chief of Police