



Miscellaneous Budget Items

June 6, 2023

Summary

- Financial Management and Budgetary Policy
- General Fund Risk Reserve Analysis



Financial Management and Budgetary Policy

- The Financial Management and Budgetary Policy was originally adopted in October of 2020.
- The City Council reviews this policy during each budget development process and considers any staff-recommended revisions with the adoption of the budget



Suggested Revisions

Policy Section	Suggested Revision(s)
2h/2l	Align policy with City's new Program Based Budgeting approach
9a/b	Align policy with City's Statement of Investment Policy
4c	Align policy with proposed revisions in the General Fund Risk Reserve analysis
4k	Define a target level of funding for the City's pension plan in conjunction with the General Fund Risk Reserve analysis
4l	Define a target level of funding for the City's Other Post Employment Benefit ("OPEB") plan in conjunction with the General Fund Risk Reserve analysis



Risk Analysis

- The Risk Analysis should be performed biennially in coordination with the development of the operating budget.
- The City's Risk Based Reserve is designed to develop standards for setting reserve levels
- The draft Risk Analysis recommends a \$56.6 million Target Reserve Level and a Minimum Reserve Level of \$53.77 million (5% below the Target Reserve amount).



Risk Factors

Policy Section	Risk Factor	2021 Analysis	2023 Analysis
1	Revenue Source Stability	\$7.8	\$9.60
2a	Vulnerability to Extreme Events - Political	1.0	1.00
2b	Vulnerability to Extreme Events - Disaster	1.7	1.95
2c	Vulnerability to Extreme Events – Legal	1.0	1.00
3	Expenditure Volatility	1.0	4.00
4a	Leverage-Debt Service	0.00	0.00
4b	Leverage- Pension Unfunded Liabilities	3.00	3.00
4c	Leverage – Other Unfunded Liabilities	0.00	1.25
5	Liquidity	8.00	8.00
6a	Other Fund Dependency – Short Term	1.00	1.00
6b	Other Fund Dependency – Annual	0.00	4.30
7	Growth	1.00	2.00
8	Capital Projects -Infrastructure & Replacement	26.80	27.50
Total Reserve Per Risk Factor		\$52.30	\$64.60
Optional Factors Not Used in Calculation			
5	Liquidity	0.00	(8.00)
Target Reserve Level		\$52.30	\$56.60
Minimum Reserve Level (5% below)		\$49.70	\$53.77



Risk Factors

- Revenue Source Stability \$9.6: Proposed increased reserve level due to the growing revenue base.
- Vulnerability to Extreme Events – Disaster \$3.95: Proposed increased reserve level due to increased exposure to criminal cyber activity.
- Expenditure Volatility \$4.0: Proposed increased reserve level due to a trend of contract increases beyond typical CPI-based levels to maintain current services. This represents one of the biggest increases in reserves proposed as inflationary pressure is impacting contract service costs.



Leverage Risk Factor

- No structured or bonded debt
- Pension Liabilities
- Other Post Employment Benefits “OPEB” Liabilities
- Risk Based Reserves
 - Trust Fund with PARS
 - Pension Plan is 106% Funded
 - OPEB Plan is 54% Funded



Pension Liabilities

- The Financial Management and Budgetary Policy revisions
- Recommendation to establish a 95% target funding status
- Required pension liability payment of less than 10% of the annual pension contribution within the seven-year financial forecast period
- Next valuation anticipated August 2023



Leverage- Pension Unfunded Liabilities

- Leverage- Pension Unfunded Liabilities \$3.0: Proposed increased reserve level to make a more gradual adjustment to any potential large increase in contribution rates.



Other Post Employment Benefits

“OPEB”

- Funding and managing retiree healthcare benefits.
- Employer contributions required under the Public Employees' Health and Medical Care Act (PEHMCA) to provide health and medical care benefits to eligible retirees.
- A retiree must meet CalPERS eligibility, retire from the City, and participate in the City's health plan.
- Current required City contribution for qualifying retiree is \$143.00 per month.
- Currently 12 qualifying retirees receive the contribution.



OPEB Funded Comparisons

City	Accrued Liability (A)	Fund Assets (B)	Plan Net Unfunded Liability	Percentage Of Total
Mission Viejo	10,527,599	12,664,140	(2,136,541)	120%
Laguna Niguel	1,746,412	1,047,847	698,565	60%
Lake Forest	1,155,283	620,230	535,053	54%
Yorba Linda	17,030,082	1,633,785	15,396,297	10%
Costa Mesa	62,882,272	3,372,223	66,254,495	5%
Aliso Viejo	544,976	-	544,976	0%



OPEB Liabilities

- The Financial Management and Budgetary Policy revisions
- Recommendation to establish a 100% target funding status
- Make the annual contributions based on the most recent actuarial valuation to the OPEB Trust
- Next valuation anticipated August 2023



Leverage – Other Unfunded Liabilities

- Leverage – Other Unfunded Liabilities \$1.25: Proposed increased reserve level to make a more gradual adjustment to any potential large increase in OPEB contribution payments.



Risk Factors

- Other Fund Dependency – Annual \$4.3: Proposed increased reserve levels due to the annual subsidy needed to maintain street maintenance service levels while gas tax revenues are diminishing. A significant reserve increase is recommended for this risk factor category, as the shift to electric vehicles is having an impact on taxes related to fuel consumption.
- Growth \$2.0: Proposed increased reserve levels to maintain Orange County Sheriff's Department contract for a total of two years.



Risk Factors

- Capital Projects -Infrastructure & Replacement \$27.5:
Proposed increased reserve levels for the funding of future asset management plan replacement needs.



Recommended Actions

- City Council approve all proposed changes to the Financial Management and Budgetary Policy.
- City Council review and provide feedback regarding the Risk Analysis
 - Will be presented for final adoption at the June 20, 2023

