



STAFF REPORT

TO: Mayor and Members of the City Council
FROM: Pak Lin, Administrative Services Director
VIA: Brian Dossey, City Manager
MEETING DATE: October 10, 2018
SUBJECT: Adoption of New City Funds

RECOMMENDATION

Staff recommends that the City Council adopt:

RESOLUTION CREATING SEVEN NEW CITY FUNDS

EXECUTIVE SUMMARY

The Town's finances currently use 10 primary funds that are described in the 2018-19 Adopted Budget. To improve the Town's financial reporting and budgeting, seven additional funds are being proposed for City Council consideration.

FISCAL IMPACT

There is no fiscal impact with the consideration and adoption of the seven new funds. Assets and budgets in General Fund (Fund 11) and Capital Fund (Fund 31) will be transferred to the new funds as summarized below. A summary of the budgetary change and asset transfer will be discussed as part of the FY2018-19 Mid-Year Financial Update and Budget Amendment. The transfers and analysis will be completed after the FY2017-18 audited financial reports are completed.

BACKGROUND

The Town of Colma budgets for revenues and expenditures and reports financial transactions in accordance with the principles of fund accounting. Separation of revenue and expenditures into unique funds provides additional control and demonstrates compliance required when the fund has specific restrictions on how it is used. Attachment B lists the 10 primary funds the Town currently uses.

On September 26, 2018, the City Council reviewed and provided feedback in favor of creating seven new new funds – General Fund Reserves (Fund 12), Parks In Lieu (Fund 24), Housing

Impact Fees (Fund 25), Street Capital (Fund 32), Sewer Operating (Fund 81), Sewer Capital (Fund 82) and City Properties (Fund 83). A table showing these proposed new funds, their fund group and classifications is attached to this Staff Report along with a resolution for their establishment by the City Council.

The proposed funds are consistent with the Town's current fund categories and with fund classifications defined by the Government Accounting Standards Board (GASB) Statement No. 54.

FUND CATEGORIES

Funds used by the Town of Colma are organized into eight categories. The proposed new funds follow the same system. The fund categories are:

<u>No.</u>	<u>Description</u>
1x	General
2x	Special Revenue
3x	Capital Projects
4x	Debt Service
5x	Permanent (Fixed Asset & Long-Term Debt)
6x	Internal Service Funds
7x	Fiduciary Funds (OPEB & Pension)
8x	Enterprise

CLASSIFICATION OF FUNDS (GASB 54)

The Town of Colma follows the requirements of Government Accounting Standards Board (GASB) Statement No. 54 in classification of governmental funds. This statement organizes funds into five classifications:

- **Non-Spendable** – amounts that are not in a spendable form, such as prepaid items or supplies inventories that are legally or contractually required to remain intact, such as principal endowments. In Colma, this classification is used for Debt Service funds that are used on debt issues such as the Town Hall Certificates of Participation (COPs).
- **Restricted** – amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e. creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation. Examples of restricted funds are Gas Tax, Measure A, and Town Hall Certificates of Participation.
- **Committed** – amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest-level decision-making authority. Examples of committed funds include Vehicle Replacement Fund.
- **Assigned** – amounts intended to be used by the Town for specific purposes, subject to change, as established either directly by the Town Council or by management officials to whom the assignment authority has been delegated by the Town Council.

- **Unassigned** – is the residual classification that includes the spendable amounts in the General Fund that are available for any purpose.

ANALYSIS

Staff is proposing the establishment of seven new funds for revenues, expenses, and financial reporting. The proposed funds are:

- **General Fund Reserves (General, Committed)** – reserved funds approved by the City Council in the Town Budget. This includes Debt Reduction (\$600,000) and Budget Stabilization (\$15,000,000). Litigation (\$100,000), Insurance (\$100,000), Disaster Response and Recovery (\$750,000) and Unassigned (\$8,253,939) as stated in the 2018-19 Adopted Budget will remain in Fund 11 – General Fund Operating Fund.
- **Parks In Lieu (Special Revenue, Restricted)** – funds from Parks In Lieu fees paid by developers. These funds are restricted and can only be used for Park and green space development around Town.
- **Housing Impact Fees (Special Revenue, Restricted)** – funds from Housing Impact fees paid by developers. These funds are restricted and can only be used for Housing purposes.
- **Street Capital (Capital Projects, Restricted)** – funds that will cover the cost of Street Capital Improvement projects. This will include grant funding from State, County and Federal sources.
- **Sewer Operating (Enterprise, Restricted)** – funds that will cover the operating and maintenance cost of the Town's Sewer System including sewer lines and the Town share of Sewer Treatment. Establishing this fund will also make the process of developing quarterly financial and annual state controller reports easier and more efficient since these revenues and expenses will be accounted for in the dedicated enterprise fund.
- **Sewer Capital (Enterprise, Restricted)** – funds that will cover the cost of Sewer Capital Improvement projects including major maintenance, sewer system assessments and capacity. Establishing this fund will better track and establish the sewer system needs in the Town.
- **City Properties (Enterprise, Committed)** – includes revenues from the lease and rental of City properties, expenses for the maintenance of City properties and depreciation and reserves to cover the expense of renovation of these properties. Establishing this fund as an enterprise will also enable the Town to more easily report on the full cost of operating these properties in terms of revenues vs. annual expense and future major maintenance and renovation expenses.

An Equipment Replacement Fund may be created as part of the 2019-2024 Five-Year Capital Plan to address major equipment replacement needs and funding mechanism.

Transfer of Assets and Obligations

The creation of the seven funds, listed above, will be effective in FY2018-19. Activities recorded in these new funds are an extraction of current and existing activities within the General Fund (11) and the Capital Projects Fund (31). Transfers of assets, fund balance, and budget will be effective July 1, 2018 and coincide with the completion of the FY2017-18 financial audit.

- **General Fund Reserves (12)** – Transfer of City Council committed Debt Reduction and Budget Stabilization Reserves.
- **Parks in Lieu Special Revenue Fund (24)** – Transfer of Cash related to the receipt of the Parks in Lieu fees previously collected from developers by the Town.
- **Housing Impact Fees Special Revenue Fund (25)** – Transfer of Cash related to the receipt of Housing Impact fees previously collected from developers by the Town.
- **Street Capital Projects Fund (32)** –The cash, fund balance, and appropriations (budget) associated with the following Capital Improvement Projects:

Project	2018-19 Budget	Reserves for Future Project
2018-19 Active Projects		
Mission Road Improvements (903)	\$ 1,594,900	
Serramonte Boulevard Beautification (913)	\$ 260,000	
Roadway Network Plan (SSARP) (993)	\$ 110,000	
El Camino Real Bicycle and Pedestrian Improvement (914)	\$ 225,000	
Unfunded Projects		
Hillside Boulevard Beautification (901)		\$1,068,059
El Camino & Mission Traffic Signal (904)		
Colma Boulevard Improvements (912)		
Lawndale Boulevard Landscape Improvement (956)		

There will be no transfers of street and roadway assets, in accordance with GASB 34.

- **Sewer Operating Enterprise Fund (81)** – Transfer of adopted operating revenues and expenditures budget, including Sewer fees (11-36221), Sanitary Sewer expenditures (11-320-73007), and Sewer Operation and Maintenance Cost (11-320-73008). Historically, General Fund subsidizes for the sewer operating shortfall and will continue to subsidize sewer operations via interfund transfers.
- **Sewer Capital Enterprise Fund (82)** – Transfer of Sewer-related Capital Assets including, but not limited to Town Sewer Lines and the Sanitary Sewer System Assessment (CIP #971). The associated, adopted budgets and appropriations for the Sanitary Sewer System Assessment will also be transferred.
- **City Properties Enterprise Fund (83)** – Transfer of City-owned Creekside Villas Senior Apartments and the Verano Townhouse and associated land. In addition, the adopted

budgets for revenue (11-34021 and 11-34026) and expenditures (11-808-xxxxx, 11-809-xxxxx) will be transferred.

CONCLUSION

Staff recommends that the Council adopt a resolution establishing seven new City Funds to enhance reporting, transparency, and budgeting functions.

ATTACHMENTS

- A. Resolution
- B. Description of Current City Funds (pages 161 and 162 of 2018-19 Adopted Town Budget)
- C. Summary of Key City Funds – Current and Proposed

RESOLUTION NO. 2018-__
OF THE CITY COUNCIL OF THE TOWN OF COLMA

RESOLUTION ADOPTING THE CREATION OF SEVEN NEW CITY FUNDS

The City Council of the Town of Colma does resolve as follows

1. Background

- (a) The Town of Colma budgets for revenue and expenditures and reports financial transactions in accordance with the principles of fund accounting;
- (b) The Adopted 2018-19 Budget contains ten (10) primary funds;
- (c) The intent of the Town is to increase financial transparency and accountability, while complying with regulatory and compliance requirements;
- (d) The Town can accomplish this by segregating current activities into new funds, which were previously reported in the General Fund and the Town Capital Projects Fund;
- (e) Whereas, the funds used by the Town are organized into eight categories, as follows:

<u>No.</u>	<u>Description</u>
1x	General
2x	Special Revenue
3x	Capital Projects
4x	Debt Service
5x	Permanent (Fixed Asset & Long-Term Debt)
6x	Internal Service Funds
7x	Fiduciary Funds (OPEB & Pension)
8x	Enterprise

- (f) The Town elects to establish seven new funds, as follows:
 - (i) General Fund Reserves – General Fund;
 - (ii) Parks in Lieu - Special Revenue Fund;
 - (iii) Housing Impact Fees - Special Revenue Fund;
 - (iv) Street Capital - Capital Projects Fund;
 - (v) Sewer Operating – Enterprise Fund;
 - (vi) Sewer Capital – Enterprise Fund;
 - (vii) City Properties – Enterprise Fund;

- (g) Each fund will comply with the Fund Balance classifications as set forth by GASB 54;
- (h) Furthermore, existing assets and obligations pertaining to each new fund, will be transferred into the newly created funds.

2. Fund Descriptions

- (a) General Fund Reserves – General Fund – For the purpose of segregating committed reserve funds approved by the City Council in the Town Budget.
- (b) Parks in Lieu – Special Revenue Fund – For the purpose of receiving Parks in Lieu fees and disbursing funds for Town parks and recreational facilities.
- (c) Housing Impact Fees – Special Revenue Fund – For the purpose of receiving Housing Impact fees paid by developers and disbursing funds for Housing purposes.
- (d) Street Capital – Capital Projects Fund – For the purpose of tracking the funding and cost of Street Capital Improvement Projects
- (e) Sewer Operating – Enterprise Fund – For the purpose of tracking the operating and maintenance cost of the Town’s Sewer System and to streamline quarterly and annual compliance reporting
- (f) Sewer Capital – Enterprise Fund – For the purpose of tracking the funding and cost of Sewer Capital Improvement project, and to establish the sewer system needs of the Town.
- (g) City Properties – Enterprise Fund – For the purpose of tracking the lease and rental of City properties, expenses for the maintenance of City properties, and depreciation.

3. Order.

- (a) The City Council hereby establishes the seven city funds as noted in Section 1(f) and Section 2 of this Resolution.

//

//

//

//

//

//

//

//

Certification of Adoption

I certify that the foregoing Resolution No. 2018-__ was duly adopted at a regular meeting of the City Council of the Town of Colma held on October 10, 2018, by the following vote:

Name	Counted toward Quorum			Not Counted toward Quorum	
	Aye	No	Abstain	Present, Recused	Absent
Raquel Gonzalez, Mayor					
Joanne del Rosario, Vice Mayor					
John Goodwin					
Diana Colvin					
Helen Fisicaro					
<i>Voting Tally</i>					

Dated _____

Raquel Gonzalez, Mayor

Attest: _____
Caitlin Corley, City Clerk

Town of Colma

Attachment B: 2018-19 Budget Excerpt: Description of Funds

The Town budgets for revenues and expenses and reports financial transactions in accordance with the principles of fund accounting. Separation of revenue and expenditures into unique funds provides additional control and demonstrates compliance required when the fund has specific restrictions on how it is used.

Governmental Funds

The majority of the funds reported as part of the Budget are classified as Governmental Funds. This category refers to funds used to account for activities which are primarily supported by tax or charges for services revenues and are generally unique to town government. Within this category, the Town uses the following fund types:

- **General** - This is the Town's primary operating fund and accounts for all financial resources of the Town except those that involve restricted funding or are required to be accounted for in another fund. The expenditure and use of General Funds are discretionary after appropriation by the City Council to the extent there are no local policies or laws that impose any special conditions.

The General Fund is designated by the Town as Fund #11. It funds the majority of Town's day to day operations, including key Town services (such as Police, Recreation, Planning, Building Inspection and General Administration). After covering the cost of Town services, General Fund resources are also transferred to the Capital Improvement and Debt Service Funds to help fund these areas as well.

- **Special Revenues** - These funds account for the use of revenues that are legally restricted to expenditures for specific purposes. The following funds are Special Revenue funds for the Town of Colma:

Gas Tax - Gas Tax revenue is collected by the State of California. It is partially distributed to cities and counties based on population and other factors. Gas Tax funds can only be spent on authorized activities related to the maintenance and construction of streets and roads.

The Gas Tax Fund is designated by the Town as Fund #21. Traffic Signal and Street Lighting contract services are also funded with this revenue source.

Measure A - Measure A is administered by the San Mateo County Transportation Authority. This is a county-wide voter-approved sales tax measure designed to improve transit and relieve traffic congestion. A portion of the Measure A funds are distributed directly to cities on a per-capita basis. The Measure A Fund is designated by the Town as Fund #22.

Transportation Grants - The Town pursues competitive grants as a source of funding major bikeway, pedestrian, and roadway capital improvement projects. Due to the restricted nature of these grants they are accounted for in a separate fund.

The Transportation Grants Fund is designated as Fund #23. The Mission Road Bicycle and Pedestrian Improvement Project (#903) has been selected for a Transportation Livable Community (TLC) and a Federal Local Streets and Roads grant. The two grants fund approximately 45% of the estimated project cost. The Roadway Network Plan (CIP #993) is partially funded with a State Systemic Safety Analysis Report Program (SSARP) grant.

Public Safety Grants - Public Safety Grants account for revenue associated with one-time or limited term Police grants that have restricted uses. This includes a distribution associated with State criminal justice realignment funds. Other one-time Police-related grants are also accounted for in this fund. The Public Safety Grants Fund is designated by the Town as Fund #27. Expenditures from this fund will finance the majority of costs associated with specialized Police training and homeless outreach services.

Police Grants - Police Grants accounts for revenue associated with Police grants that have restricted uses and may be on-going. This includes an annual State distribution from the Supplemental Law Enforcement Services Fund (SLESF), which must be used for front-line law enforcement activities.

The Police Grants Fund is designated by the Town as Fund #29. Expenditures from this fund will finance the majority of costs associated with Police - Community Services Division including a Community Services Officer (CSO) position.

- **Capital Projects** - These funds are used to fund and account for capital improvement projects that involve streets, sidewalks and bikeways (category 1), sewers and storm drains (category 2), city facilities and long range plans (category 3) and major equipment, technology and fleet replacement (category 4).

Capital Improvement - The Capital Improvement Fund funds and accounts for projects in the four categories listed earlier. Capital Improvement Projects are assigned for non-operating projects in excess of \$10,000. Due to the nature of capital projects, funding and expenditures for a single project may span more than one Fiscal Year. The Capital Project Fund is designated by the Town as Fund #31.

COPs Town Hall - The COP Town Hall capital fund accounts for project expenses which were financed by Certificates of Participation (COPs) debt financing. The Town financed a portion of the Town Hall Campus Renovation Project (\$5.1 million) with funds borrowed with this financing approach. The remainder of the Town Hall project is funded by the Capital Improvement Fund. During 2017-18, COPs Town Hall funding was completely spent. The COPs Town Hall Fund is designated by the Town as Fund #33.

- **Debt Service** - This fund accounts for the payment of interest and principal associated with the 2015 Town Hall Campus Renovation COP and related administrative expenses. This is the only debt the Town currently has outstanding. The source of funding the annual cost of this debt issue is a transfer of funds from the General Fund. The Debt Service Fund is designated by the Town as Fund #43.

Internal Service Fund - In addition to Governmental Funds, the Town has one Internal Service Fund (ISF). An Internal Service Fund accounts for the provision of goods and services to departments on a cost reimbursement basis.

- **Fleet Replacement Fund** - This fund is used to accumulate funds over time to provide for the replacement of the Town fleet used by Police, Public Works, Recreation and Administration. Annual charges based on the usable life and cost of vehicles and the public works fleet are recorded as expenses within the operating departments. The future replacement of these vehicles and the fleet is financed from reserves accumulated in this fund. The Fleet Replacement Fund is designated by the Town as Fund #61.

Town of Colma

Attachment C: Summary of Key City Funds – Current and Proposed

FUND CATEGORIES

No.	Description
1x	General
2x	Special Revenue
3x	Capital Projects
4x	Debt Service
5x	Permanent (Fixed Asset & Long Term Debt)
6x	Internal Service Funds
7x	Fiduciary Funds (OPEB & Pension)
8x	Enterprise

CURRENT FUNDS

<i>No.</i>	<i>Fund</i>	<i>Category</i>	<i>Classifications</i>
11	General Fund	General	Assigned, Unassigned
21	Gas Tax	Special Revenue	Restricted
22	Measure A	Special Revenue	Restricted
23	Transportation Grants	Special Revenue	Restricted
27	Public Safety Grants	Special Revenue	Restricted
29	Police Grants	Special Revenue	Restricted
31	Capital Improvement	Capital Projects	Committed
33	COPs - Town Hall	Capital Projects	Restricted
43	Debt Service	Debt Service	Non-Spendable
61	Vehicle Replacement	Internal Service	Committed

NEW FUNDS

<i>No.</i>	<i>Fund</i>	<i>Category</i>	<i>Classification</i>
12	General Fund Reserves	General	Committed
24	Parks In Lieu	Special Revenue	Restricted
25	Housing Impact Fees	Special Revenue	Restricted
32	Street Capital	Capital Projects	Restricted
81	Sewer Operating	Enterprise	Restricted
82	Sewer Capital	Enterprise	Restricted
83	City Properties	Enterprise	Committed