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**To: Lemoore City Council** Item 4F  
**From: Jeff Briltz, City Manager**  
**Date: June 14, 2011**  
**Subject: Proposed Amendments - Strategic Financial Policy -  
Asset Replacement Program**

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**Discussion:**

On December 5, 2000, the City adopted a Strategic Financial Policy (attached). The Policy established a number of important financial protections, including Reserve Levels, an Infrastructure/Facility Capital Fund, Reporting Requirements, Public Hearings prior to Debt Issuance, and Asset Replacement Accounts.

Asset Replacement Accounts were established primarily to avoid the need to finance vehicles and equipment by creating a dedicated savings account for those purposes. Since its implementation, the Asset Replacement Program has worked exactly as intended; the City has not needed to use lease/purchases or other financing mechanisms for what should be considered routine replacements, such as fire trucks, refuse vehicles, patrol cars, etc. In the 1990s, it was common for the City to use such instruments.

However, now that the program has been in place for more than a decade, we believe some minor amendments are in order. The first suggested amendment is simple, the Policy refers to tracking assets over \$1,000 and calculating depreciation on those assets. Many years ago, at the suggestion of our auditors, we switched the floor amount for tracking assets from \$1,000 to \$2,500. Changing this requirement from \$1,000 to \$2,500 is recommended.

The second item deals with the total amounts deposited annually per fund. Currently, it is equal to a given year's depreciation calculation. What we have noticed is that in some cases, the balances are growing beyond what is likely to be needed. The reason for that is that assets acquired through other funding sources, such as Redevelopment, grants, etc. are ultimately booked as City assets, and contribute to the depreciation schedule, causing it to rise over time, even though the City would not plan on using the Asset Replacement funds to replace such assets. In other cases, grants pay for what would be considered a replacement item, such as a grant-funded refuse truck, which causes the schedule to again rise.

Staff is proposing a modified contribution schedule to account for these rising balances. See the table below:

Fund	FY Ending Balance 100% of Depreciation	FY Ending Balance 75% of Depreciation	FY Ending Balance 50% of Depreciation	FY Ending Balance 25% of annual depreciation
General Fund	\$0 - 1,500,000	\$1,500,001 - 2,500,000	\$2,500,001 - 3,000,000	\$3,000,001 +
Water Fund	\$0 - 1,000,000	\$1,000,001 - 2,000,000	\$2,000,001 - 2,500,000	\$2,500,001 +
Refuse Fund	\$0 - 500,000	\$500,001 - 1,000,000	\$1,000,001 - 1,500,000	\$1,500,001+
Sewer Fund	\$0 - 1,000,000	\$1,000,001 - 2,000,000	\$2,000,001 - 2,500,000	\$2,500,001 +
Fleet Fund	\$0 - 50,000	\$50,001 - 100,000	\$100,001 - 150,000	\$150,001 +

This revised contribution schedule will ensure that all of the funds continue to receive annual apportionments, but as the fund balances rise, the contributions amounts go down. This is a far more predictable way of dealing with the rising balances rather than simply electing, from time to time, to forgo contributions. Additionally, it allows the funds to be used for their original intent, without tying up resources unnecessarily.

On Tuesday June 7, the Council discussed these proposed changes, along with an evaluation of the impact they would have on the funds available in the Asset Replacement Accounts. Following the discussion, staff was directed to bring back the revisions in a proposed document, and to additionally add a requirement that the Council review the Policy at least every four years. Attached for your consideration is the proposed amended Policy, presented in strikethrough/underline format. If it is adopted, a clean copy of the Policy will be produced and used going forward.

**Budget Impact:**

The result of the proposed amendments will be reduced contributions into Asset Replacement Accounts as the balances rise. The will allow for more flexibility in uses of the available resources in each fund, but only as the balances rise to their second tier and above.

**Recommendation:**

That the Council, by motion, approve the proposed amendments to the Strategic Financial Policy.